

**STATE OF FLORIDA
AUDITOR GENERAL**



***OPERATIONAL AUDIT
OF THE***

CITY OF DEFUNIAK SPRINGS, FLORIDA

***For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto***

STATE OF FLORIDA

AUDITOR GENERAL

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CITY OF DEFUNIAK SPRINGS, FLORIDA

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CHARLES L. LESTER, CPA
AUDITOR GENERAL

STATE OF FLORIDA
AUDITOR GENERAL
TALLAHASSEE

August 18, 1999

The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

Pursuant to the provisions of Section 11.45, Florida Statutes, and as part of the Legislature's oversight responsibility for operations of local governmental entities, I have directed that an operational audit be made of the

CITY OF DEFUNIAK SPRINGS, FLORIDA,

***For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto.***

The results of the audit of the City of DeFuniak Springs, Florida, are presented herewith.

Respectfully submitted,

Charles L. Lester
Auditor General

Audit supervised by:
Ted J. Sauerbeck

Audit made by:
Marcella A. Strange

**OPERATIONAL AUDIT
OF THE

CITY OF DEFUNIAK SPRINGS, FLORIDA
For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto**

AUDIT REPORT SUMMARY

This audit report summary highlights the scope, objectives, methodology, and findings of audit report No. 13529. It is intended to present the findings of our report in a condensed fashion. The entire audit report should be read for a comprehensive understanding of our audit findings.

SCOPE/OBJECTIVES

The Auditor General, as part of the Legislature's oversight responsibility for operations of local governmental entities, makes operational audits to evaluate management's performance in administering assigned responsibilities in accordance with applicable laws, ordinances, and other guidelines and to determine the extent to which the internal control, as designed and placed in operation, promotes and encourages the achievement of management's control objectives in the categories of compliance, economic and efficient operations, reliability of financial records and reports, and safeguarding of assets.

The scope of this audit of the City of DeFuniak Springs (City), Florida, focused primarily on those operating units, programs, activities, functions, and classes of transactions relating to the revenues, expenditures, and assets of the City for the period October 1, 1996, through September 30, 1997, and selected actions taken prior and subsequent thereto.

METHODOLOGY

We conducted our audit in accordance with generally accepted auditing standards and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

FINDINGS

Matters coming to our attention relating to noncompliance with various guidelines and those relating to significant deficiencies in the design or operation of the internal control for those operations audited are described below.

Management Controls

The City of DeFuniak Springs' (City) stewardship responsibilities carry with them a responsibility to assure that management controls provide for the effective and efficient use of the resources in accordance with applicable laws, ordinances, and other guidelines. City management's ability to implement adequate controls is affected by the City's limited staffing and financial resources, and we considered these limitations in evaluating the adequacy of the City's management controls as discussed under appropriate subheadings below.

Policies and Procedures

The City did not have written policies or procedures for many of its accounting and other business-related functions. Such policies and procedures are essential in providing both management and employees with guidelines regarding the proper conduct of City business and the effective safeguarding of assets and ensuring that City records provide reliable information necessary for management oversight. (See [paragraphs 22 through 25](#).)

Budgetary Controls

Section 166.241(3), Florida Statutes, provides that the governing body of each municipality shall adopt a budget each fiscal year by ordinance unless otherwise specified in the respective municipality's charter. The amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. The budget must regulate expenditures of the municipality, and it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. The City's budgeted appropriations for expenditures (excludes interfund transfers) totaled \$6,526,799 and \$7,414,149 for the 1996-97 and 1997-98 fiscal years, respectively. Our

review disclosed several deficiencies and/or noncompliance with applicable law in the preparation, adoption, amendment, and implementation of the budget that could result in over- or undertaxing and inadequate information being provided to taxpayers.

- **Budget Preparation.** Although required by Section 166.241(3), Florida Statutes, the City did not consider all beginning fund equities available from prior fiscal years when preparing the 1996-97 and 1997-98 fiscal years budgets. The amounts of such balances brought forward have a direct impact on the amount of additional funds to be raised to finance City operations. In addition, the 1996-97 and 1997-98 fiscal years budgets did not include appropriations for one special revenue fund. (See [paragraphs 28 through 31.](#))
- **Budget Adoption and Amendment.** The City Council did not adopt by ordinance the original budget and budget amendments for the 1996-97 or 1997-98 fiscal years, which is not consistent with the provisions of Section 166.241(3), Florida Statutes. (See [paragraphs 32 through 36.](#))
- **Budget Overexpenditures.** City records did not clearly identify the legal level of budgetary control (i.e., the level at which expenditures may not legally exceed amounts budgeted) established by the City Council. Also, for the 1996-97 fiscal year, the City overexpended its total budget by \$243,907, contrary to Section 166.241(3), Florida Statutes. (See [paragraphs 37 through 41.](#))

Investments

According to the City's audited financial statements, the City had cash and investments totaling \$4,466,233 and \$4,912,426 at September 30, 1997, and 1998, respectively. These amounts consisted almost entirely of interest-bearing accounts and certificates of deposit at local banking institutions (\$1,000 was invested in a United States Treasury Bond). During the period October 1, 1996, through June 30, 1998, the City maintained significant balances of surplus City

moneys in low interest money market or checking accounts and reported interest earnings net of service charges of approximately \$61,000. However, additional interest earnings of \$47,680 could have been earned had the excess funds been invested through the Florida State Board of Administration. (See [paragraphs 44 through 49.](#))

General Fixed Assets

According to the City's audited financial statements, the City had net fixed assets totaling \$15,174,578 and \$16,707,506 as of September 30, 1997, and September 30, 1998, respectively. Of these amounts, \$12,406,978 and \$13,603,456 were related to the proprietary fund types as of September 30, 1997, and September 30, 1998, respectively. The results of our examination of the City's records and internal controls for fixed assets are described below:

- **General Ledger Control Accounts.** The City had not established general ledger control accounts to account for fixed assets reported in the general fixed assets account group (i.e., fixed assets not associated with proprietary fund types). Additionally, we noted differences between general ledger control accounts and the fixed asset inventory (subsidiary) records for proprietary fund types. (See [paragraphs 51 through 54.](#))
- **Tangible Personal Property Records.** The City's fixed asset subsidiary records did not include all of the information necessary to properly identify, and evidence the establishment of accountability for, tangible personal property items. Specifically, the City had not established a uniform property numbering system to account for tangible personal property. Although some property numbers were assigned to tangible personal property, the numbers were not recorded in the fixed asset subsidiary records. Additionally, we noted several instances where the fixed asset subsidiary records had not been promptly adjusted for deletions of tangible personal property. (See [paragraphs 55 through 58.](#))

- **Annual Tangible Personal Property Inventory.** The results of the City's annual physical inventory of tangible personal property was not, in some instances, reconciled to the fixed asset subsidiary records. Our test of 19 property items that we physically observed and attempted to trace back to the fixed asset subsidiary records disclosed 4 items that, although they had been inventoried as indicated on the inventory sheets, were not recorded in the fixed asset subsidiary records. (See [paragraphs 59 and 60.](#))

Restricted Funds

The City did not maintain separate accountability for the use of certain transportation-related restricted revenues through the use of special revenue funds. Although, according to the City's accounting records, the City's transportation-related expenditures in the General Fund exceeded the amount of these restricted revenues received for the period October 1996 through September 1998, the use of special revenue funds, as required by the Florida Department of Banking and Finance's *Uniform Accounting System Manual*, would enhance the City's ability to control the use of restricted moneys. (See [paragraphs 61](#) through [66.](#))

Personnel and Payroll Administration

The City had 75 full-time employees and elected officials as of September 30, 1997, and salary expenditures/expenses of approximately \$1.3 million for the 1996-97 fiscal year. Personnel policies of the City are addressed by the City's *Personnel Policy (Policy)*, which the City Council adopted by Resolution No. 87-12 on November 23, 1987.

- **Salaries in Excess of Maximum Range.** In some instances, employees' salaries for the 1996-97 fiscal year were above the maximum range established in the City's *Job Classification & Description plan (Plan)*. Also, the City Council had not, of record, approved the *Plan*. (See [paragraphs 68 and 69.](#))

- **Employee Benefits.** Two employees on extended leaves of absences without pay during the period June 1994 through June 1996 received holiday and/or incentive pay and their health insurance premiums were paid by the City. These benefits do not appear to be clearly allowable in the *Personnel Policy*. (See [paragraphs 70 through 74.](#))
- **Compensatory Time.** To appropriately demonstrate compliance with Federal laws governing compensatory time, the City should review its *Personnel Policy* for consistency with its actual compensatory time payment practices. (See [paragraphs 75 through 78.](#))

Procurement of Goods and Services

Expenditures of public funds must, to qualify as authorized expenditures, be shown to be authorized by applicable law or ordinance; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. The nature of our audit required that we form judgments as to the propriety of City expenditures. Our audit disclosed a number of expenditures for which the City had not adequately documented: (1) the propriety of the expenditures (i.e., that they served a public purpose and were in compliance with applicable laws, ordinances, and other guidelines); (2) the amounts expended were reasonably determined in relation to the goods or services acquired; and/or (3) the goods or services were acquired using good business practices (i.e., a competitive selection process and/or written agreements). These expenditures totaled \$1,225,665, including \$136,359 that were unauthorized and/or inadequately supported as to their propriety.

General Disbursements

- **Disbursement Processing.** Our test of expenditure vouchers disclosed deficiencies in the City's disbursement processing procedures that may limit the City's ability to ensure that goods and services are received in the quantity and quality contemplated by management's authorization. (See [paragraphs 83 through 86.](#))

- **Contributions to Nongovernmental Organizations.** The City made cash contributions totaling \$45,638 and \$52,550 to a total of 14 different nongovernmental organizations during the 1996-97 and 1997-98 fiscal years, respectively, for which the City had not implemented adequate procedures to obtain an appropriate level of assurance that the public funds were used for a specified public purpose. (See [paragraphs 87 through 91.](#))
- **Contributions to Governmental Entities.** The City made cash contributions totaling \$14,000 to, or on behalf of, two governmental organizations during the period October 1994 through September 1998. The City Council had not, of record, demonstrated why these expenditures were the responsibility of the City rather than the other governmental entities. (See [paragraphs 92 through 96.](#))
- **Inadequately Documented/Unauthorized Expenditures.** Our audit disclosed expenditures totaling \$4,619.43 for which the City's records did not clearly document the public purpose served. (See [paragraphs 97 through 100.](#))

Purchasing Practices

As a matter of good business practice, procurement of goods or services should be done using a competitive selection process to provide an effective means of equitably procuring the best quality of goods or services at the lowest possible cost. The City's purchasing and contracting practices are primarily addressed in Section 2-1 of the *Municipal Code*, which establishes, in part, the dollar thresholds for obtaining quotes and bids for purchases and contracts, specifies the methodology for advertising for bids, and establishes procedures for sole source and emergency purchases. As discussed below, our audit disclosed deficiencies in the City's procurement practices.

- **Awarding of Contracts for Services.** Contracts for linen services were signed without obtaining City Council approval, which does not appear to be consistent with the *Municipal Code*. Additionally, contracts for

engineering and linen services were signed by an official and an employee, respectively, who were not authorized as a contract signer by the *Municipal Code*. (See [paragraphs 102 through 104](#).)

- **Written Agreements**. The City incurred legal and water and sewer testing services expenditures totaling \$106,026.11 during the period October 1996 through September 1998 without benefit of formal written agreements. Written agreements are a good business practice that facilitates a determination that payments for services are reasonable and in accordance with the City Council's intent. (See [paragraphs 105 through 107](#).)
- **Auditing Services**. The City acquired auditing services for its general purpose financial statements for the fiscal years ended September 30, 1997, and September 30, 1998, without using a competitive selection process, contrary to Section 11.45(3)(a)5., Florida Statutes. (See [paragraphs 108 through 112](#).)
- **Sole Source Purchases**. The City expended \$12,679 for street repair material purchased from one vendor without documenting that other vendors were contacted to evidence that the item could only be obtained from a sole source. Documentation of such vendor contacts is required by Section 2-1(i) of the *Municipal Code*. (See [paragraphs 113 through 115](#).)
- **Lease Purchases**. The City entered into two lease-purchase agreements to acquire a fire truck and 13 police cars at a total cost of \$415,741; however, the City granted the banks a security interest in the equipment being acquired. The Attorney General has opined that governmental agencies, including municipalities, may not legally agree to the creation of a security interest in publicly-owned assets. Also, the agreements contained provisions that appeared to limit the City Council's discretion in determining whether they should be renewed beyond the current fiscal year. (See [paragraphs 116 through 120](#).)

Travel Expenses

City travel expenses are subject to Section 112.061, Florida Statutes, which governs per diem and travel expenses of public agencies. During the 1996-97 and 1997-98 fiscal years, the City incurred expenditures of \$13,574 and \$10,846, respectively, for travel-related expenses of City officials and employees (including \$5,425 for travel allowances paid to the City Manager). Our examination of travel-related expenditures disclosed several instances in which travel expenditures were inadequately supported and/or not in accordance with Section 112.061, Florida Statutes, as discussed below.

- **Travel Allowance.** The City Manager received a monthly travel allowance during the period October 1, 1994, through January 15, 1998. However, this monthly travel allowance was not supported by a signed statement showing a typical month's travel, contrary to Section 112.061(7)(f), Florida Statutes. As a result, the City had not demonstrated, of record, the propriety of the travel allowance. In addition, such travel allowances were not subjected to withholding for payment of Federal income tax and other employment taxes. (See [paragraphs 123](#) through 128.)
- **Travel Reimbursements.** Our test of 41 travel expenditures totaling \$5,544.05 for the period October 1, 1996, through July 14, 1998, disclosed that these expenditures were not always adequately supported and/or in accordance with Section 112.061, Florida Statutes, or City procedures. (See [paragraphs 129](#) through 132.)
- **Taxable Meal Allowances.** Contrary to Federal regulations, payments for nondeductible travel expenses (Class C meal allowances) were not reported as wages or other compensation and were not subjected to withholding for payment of Federal income tax and other employment taxes. (See [paragraphs 133](#) through 136.)

Communications Expenses

During the period October 1, 1996, through September 30, 1998, the City paid \$464.96 of Federal, State, and local telecommunication taxes from which it is exempt. (See [paragraphs 137](#) through 139.)

Vehicle Usage

The City Council had not, of record, designated which City vehicles were to be driven home overnight (i.e., to be assigned to employees on a 24-hour basis), contrary to the City's *Personnel Policy*. Also, adequate vehicle usage logs were not maintained for City vehicles assigned on a 24-hour basis. In addition, the City, for employees assigned vehicles on a 24-hour basis prior to January 1998, did not report the value of the personal use of the vehicles to the Internal Revenue Service, contrary to United States Treasury Regulations. (See [paragraphs 140](#) through 142.)

Other Matters

- **Sunshine Law**. In one instance, two former Council members and the City Manager met with a local business owner to discuss the purchasing of parts and service. Contrary to Section 286.011, Florida Statutes, the meeting was not advertised and held open to the public and minutes for the meeting were not recorded. (See [paragraphs 143](#) through 147.)
- **Sprayfield Acquisition**. The City, in purchasing 400 acres of land, acquired a site necessary to the completion of its sprayfield irrigation system project and avoided potential future costs related to noncompliance with the Consent Order requiring full compliance with the Florida Department of Environmental Protection standards. However, the City did not fully comply with the provisions of Section 166.045(1)(a), Florida Statutes, regarding the documentation of offers and counter offers. As a result, the City did not adequately document, of record, why the City acquired 100 acres of property (at \$800 per acre) in excess of that needed to construct the sprayfield, paid approximately \$40,000 in excess of the appraised value of the property, and allowed the property owner to cut timber from the

property and retain the proceeds from the sale of the timber. (See [paragraphs 148](#) through 156.)

- **Year 2000 Compliance.** The City has initiated several actions intended to assure that the City's information technology systems and resources are Year 2000 compliant. Because of the unprecedented nature of the Year 2000 issue, its operational effects will not be fully determinable until the Year 2000 and thereafter. (See [paragraphs 157](#) through 160.)

The City's written response to the audit findings and recommendations included in audit report No. 13529 is presented as Exhibit B.

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**OPERATIONAL AUDIT
OF THE

CITY OF DEFUNIAK SPRINGS, FLORIDA
For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto**

Par.
No.

BACKGROUND

Authority

- (1) The Town of DeFuniak Springs was incorporated on July 30, 1901. The Legislature subsequently ratified and confirmed the incorporation of the Town of DeFuniak Springs in 1903 by Chapter 5341, Laws of Florida, 1903. Chapter 63-1263, Laws of Florida, changed the name of the Town of DeFuniak Springs to the City of DeFuniak Springs (City). The City is located in Walton County, Florida.
- (2) In 1973 the Florida Legislature enacted the “Municipal Home Rule Powers Act” (Chapter 73-129, Laws of Florida). This Act established Section 166.021(1), Florida Statutes, which extended to municipalities the exercise of powers for municipal governmental, corporate, or proprietary purposes not expressly prohibited by the Constitution of the State of Florida, general or special law, or county charter, and removed any limitations, judicially imposed or otherwise, on the exercise of home rule powers other than those expressly prohibited. The “Municipal Home Rule Powers Act” also provided that all then existing special acts pertaining exclusively to the power or jurisdiction of a particular municipality, except as otherwise provided in Section 166.021(4), Florida Statutes, were to become ordinances of the municipality on the effective date of the Act (October 1, 1973). There have been no special acts of the Florida Legislature pertaining to the City since 1969. Procedures for amending a municipality’s charter and establishing new ordinances are set forth in Sections 166.031 and 166.041, Florida Statutes, respectively.
- (3) All general and permanent ordinances of the City were codified into the *MUNICIPAL CODE CITY OF DEFUNIAK SPRINGS, FLORIDA (Municipal Code)* by City Ordinance No. 491 adopted by the City Council on August 10, 1981. The *Municipal Code* establishes the general powers of the City; the duties of the City Manager and the Director of Finance; administrative requirements, procedures, and guidelines for various City activities and functions; and

provisions for the administration of City Council meetings. Included in the *Municipal Code* are the Charter Laws, which are those acts of the Legislature relating to the City and City ordinances that cannot be amended without a referendum as required by Chapter 165, Florida Statutes. Additionally, personnel procedures were established in the *Personnel Policy*, which the City Council adopted by Resolution No. 87-12 on November 23, 1987.

Organizational Structure

- (4) As provided by Article VIII, Section 2.(b) of the Constitution of the State of Florida, the City is governed by an elective legislative body. Section 5 of the Charter Laws, as amended by Ordinance No. 431, provides that the City Council shall consist of five councilmen who shall qualify and run at large and serve for terms of two years. Section 7 of the Charter Laws provides that the office of Mayor shall be for a two-year term with the Mayor serving as the presiding officer of the City Council. Section 8 of the Charter Laws states that the Mayor shall vote only in cases of a tie vote on the City Council, provided the Mayor shall have no vote in matters pertaining to adoption of City ordinances. Pursuant to Section 9 of the Charter Laws, all ordinances passed by the City Council must be submitted to the Mayor for approval. If disapproved by the Mayor, an ordinance may still become law if passed by a two-thirds vote of the City Council members present at the next regular meeting following such disapproval.
- (5) In addition to the City Council members and the Mayor, the City Marshal and City Clerk are elected officials that serve a two-year term of office pursuant to Section 10 of the Charter Laws. The powers and duties of the City Marshal are set forth in Section 20-1 of the *Municipal Code* and include, in part: providing a daily police log, an accurate record of arrests, and an accurate schedule of absences from duty of all policemen; signing all warrants of arrest; maintaining discipline and being responsible for the conduct of policemen; ensuring that all policemen meet all standards pertaining to municipal law enforcement officers; recommending the hiring, suspension, or dismissal of policemen; and establishing in detail the duties and hours of employment of each policeman. The general duties of the City Clerk are set forth in Section 2-32 of the *Municipal Code* and include, in part: taking the minutes of the City Council meetings; maintaining custody of the City seal, resolutions, and all minutes books; and signing and affixing the seal of the City to applicable documents.

- (6) The chief administrative officer of the City is the City Manager, who is appointed by and serves at the pleasure of the City Council. The duties of the City Manager are set forth in Section 2-45 of the *Municipal Code* and include, in part: appointing and removing City employees; preparing and submitting an annual budget; advising the City Council as to the current conditions and status of all departments and functions of the City, including the financial condition and future needs of the City; executing contracts on behalf of the City after City Council approval; overseeing the execution of laws, ordinances, policies, and acts of the City Council, subject to his/her direction and supervision; arranging for an annual audit by a certified public accountant, the selection of whom is approved by the City Council; preparing job descriptions for all employees and recommendation of salaries and salary increases; and maintaining a complete description of all City properties and improvements and an annual inventory of all City personal properties, including all furniture, fixtures, equipment, motor vehicles, etc.
- (7) The Finance Director is appointed by the City Council and is responsible to the City Council and City Manager for the administration of all City finances. The duties of the Finance Director are set forth in Section 2-60 of the *Municipal Code* and include, in part: advising the City Council on a monthly basis of the current financial condition of the City and furnishing the City Council and City Manager a budget summary; assisting in the preparation of the annual budget; furnishing the Mayor, City Council members, or the City Manager, upon request, copies of all records concerning the City's financial condition; serving as the City Treasurer and receiving all moneys paid to the City; disbursing funds in the payment of authorized expenditures; investing City funds subsequent to obtaining approval from the City Council; preparing a monthly list for the City Council of bills paid or to be paid; and supervising City personnel responsible for clerical duties necessary to effectively carry out the duties of the Finance Director.
- (8) The elected officials of the City of DeFuniak Springs serving during the 1996-97 fiscal year were:

City Council Members :

Dennis Ray, Seat 1, Mayor Pro Tempore from July 28, 1997
A. O. Campbell, Seat 2, Mayor Pro Tempore to July 27, 1997
Sonny Heath, Seat 3
Mark Anderson, Seat 4
Opal Chandler, Seat 5, to July 27, 1997
Roy McLeod, Seat 5, from July 28, 1997

Other Elected Officials :

Harley Henderson, Mayor to July 27, 1997
John V. Lawson, Mayor from July 28, 1997
Dorothy Donald, City Clerk to June 12, 1997 (1)
Linda Close, City Clerk from July 14, 1997 (1)
Clinton Hooks, City Marshal to July 13, 1997 (Deceased)
Ray Burgess, City Marshal from July 14, 1997

Note: (1) Dorothy Donald resigned June 12, 1997. The Office remained vacant until Linda Close was sworn in as City Clerk on July 14, 1997.

- (9) The City Manager serving during the 1996-97 fiscal year was Michael G. Standley.
- (10) As provided in Article VIII, Section 2.(b) of the Constitution of the State of Florida, and Section 166.021(1), Florida Statutes, the City is empowered to conduct municipal government, perform municipal functions, and render municipal services. During the 1996-97 fiscal year, the City's organizational structure consisted of those positions described in paragraphs 4 through 7 and also included the following major positions and areas of responsibility:
- Assistant City Manager and Director of the Building and Zoning Department - assistant to the City Manager and responsible for the administration of building, planning, and zoning regulations, and the comprehensive plan;
 - Supervisors – responsible for the administration of the various departments, including the Cemetery, Natural Gas, Shop, Street, Parks and Recreation, Sanitation, Water, and Sewer Departments; and
 - Fire Chief – responsible for the administration of the Fire Department.

Related Audits

- (11) Our audit did not extend to an examination of the City's financial statements or to the City's administration of Federal awards. The City's financial statements and Federal awards administered by the City for the fiscal years ended September 30, 1997, and September 30, 1998, were audited by a certified public accounting firm and the audit reports are on file as a public record with the City. The certified public accounting firm's 1997-98 fiscal year audit report included a reportable condition related to a new computer system that caused several problems relating to accounts receivable and payable. These functions were not included within the scope of our audit.



CHARLES L. LESTER, CPA
AUDITOR GENERAL

STATE OF FLORIDA
AUDITOR GENERAL
TALLAHASSEE

August 10, 1999

REPORT ON COMPLIANCE AND INTERNAL CONTROL

- (12) The City of DeFuniak Springs, Florida, is responsible for administering numerous operating units, programs, activities, functions, and classes of transactions in accordance with governing provisions of laws, ordinances, and other guidelines. Additionally, the proper administration of public funds requires that management establish and maintain a system of internal control to provide reasonable assurance that specific entity objectives will be achieved. The Auditor General, as part of the Legislature's oversight responsibility for operations of governmental entities, makes operational audits to determine the extent to which management has fulfilled those responsibilities.
- (13) The scope of this audit focused primarily on those operating units, programs, activities, functions, and classes of transactions relating to revenues, expenditures, and assets of the City. For each of these areas, our audit included examinations of various transactions (as well as events and conditions) during the period October 1, 1996, through September 30, 1997, and selected actions taken prior and subsequent thereto. The audit also included examinations of transactions related to allegations concerning the City's operations to determine whether such transactions were executed, both in manner and substance, in accordance with governing provisions of laws, ordinances, and other guidelines. In some instances, these allegations required us to examine transactions related to certain specified City officials and employees that were the subject of the allegations.
- (14) We conducted our audit in accordance with generally accepted auditing standards and applicable standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our audit objectives for the operating units, programs, activities, functions, and classes of transactions within the scope of audit were:
- To evaluate the City's performance in administering its assigned responsibilities in accordance with applicable laws, ordinances, and other guidelines.

- To determine the extent to which the City's system of internal control, and selected relevant controls, promotes and encourages the achievement of management's objectives in the categories of compliance with applicable laws, ordinances, and other guidelines; the economic and efficient operation of the City; the reliability of financial records and reports; and the safeguarding of assets.
- (15) As a part of our audit, we examined, on a test basis, evidence supporting transactions (as well as events and conditions) which occurred; performed analytical procedures; reviewed management's administrative constructions of law; and performed such other procedures as we considered necessary in the circumstances. Our objective was to evaluate management's compliance with significant provisions of laws, ordinances, and other guidelines governing those operating units, programs, activities, functions, and classes of transactions within the scope of audit. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.
- (16) The results of our tests of compliance indicated that, with respect to the items tested, the City had not, in several instances, complied with provisions of laws, ordinances, and other guidelines governing those operating units, programs, activities, functions, and classes of transactions within the scope of audit. Matters coming to our attention relating to noncompliance with various guidelines for those operations audited are noted in the ***FINDINGS AND RECOMMENDATIONS*** section of this report.
- (17) In planning and performing our audit, we considered the City's internal control relevant to those operating units, programs, activities, functions, and classes of transactions within the scope of audit. Our purpose in considering internal control was to determine the nature, timing, and extent of substantive audit tests and procedures necessary to the accomplishment of our audit objectives, not to provide assurance on internal control.
- (18) We noted certain matters involving the design and operation of the City's internal control that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect management's assurance of compliance with applicable laws, ordinances, and other guidelines; the economic and efficient operation of the City; the reliability of financial records and reports; and the safeguarding of assets. Those matters

coming to our attention for the operating units, programs, activities, functions, and classes of transactions within the scope of audit are noted in the ***FINDINGS AND RECOMMENDATIONS*** section of this report.

- (19) A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that operating deficiencies, material in relation to the financial records and resources of the operating units, programs, activities, functions, and classes of transactions being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control would not necessarily disclose all matters in the City's internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described in the ***FINDINGS AND RECOMMENDATIONS*** section of this report is a material weakness.
- (20) This report is intended for the information of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the City Council, and applicable City management. Copies of this report are available pursuant to Section 11.45(7), Florida Statutes, and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Charles L. Lester".

Charles L. Lester, CPA
Auditor General

FINDINGS AND RECOMMENDATIONS

Management Controls

- (21) The accomplishment of an organization's responsibilities requires the establishment of certain management processes to assure that the resources available to the organization are properly identified, acquired, safeguarded, and utilized. The City of DeFuniak Springs' (City) stewardship responsibilities associated with such resources, including public funds, carry with them a responsibility to assure that management controls provide for the effective and efficient use of the resources in accordance with applicable laws, ordinances, and other guidelines. City management's ability to implement adequate controls is affected by the City's limited staffing and financial resources, and we considered these limitations in evaluating the adequacy of the City's management controls, as discussed under appropriate subheadings below.

Policies and Procedures

- (22) The City did not have written policies or procedures for many of its accounting and other business-related functions. Such policies and procedures are essential in providing both management and employees with guidelines regarding the proper conduct of City business and the effective safeguarding of assets and ensuring that City records provide reliable information necessary for management oversight.
- (23) Written policies and procedures which clearly define responsibilities of employees are essential in order to provide both management and employees with guidelines regarding the efficient and consistent conduct of City business and the effective safeguarding of the City's assets. In addition, written policies and procedures, if properly designed, communicated to employees, and effectively placed in operation, would provide management additional assurances that City activities are conducted in compliance with applicable laws, ordinances, and other guidelines, and that City financial records provide reliable information necessary for management oversight. Also, written policies and procedures would assist in the training of new employees.
- (24) Our review of City operations disclosed that the City did not have written policies and procedures for many of its accounting systems and other business-related functions. Written procedures were not available to document controls over budgets, revenues, petty cash, fixed assets, payroll, and disbursement processing. Those instances noted on audit of

noncompliance or lack of adequate internal controls, which may have been the result, at least in part, to the lack of written policies or procedures, as well as instances where actual practices are not consistent with established policies, are discussed under appropriate subheadings in this report.

- (25) We recommend that the City, for its essential accounting and business-related functions, adopt necessary written policies and procedures consistent with applicable laws, ordinances, and other guidelines. Where appropriate, the written policies and procedures should address the instances of noncompliance and internal control deficiencies discussed in this report.

Budgetary Controls

- (26) Section 166.241(3), Florida Statutes, provides that the governing body of each municipality shall adopt a budget each fiscal year by ordinance unless otherwise specified in the respective municipality's charter. The amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. The budget must regulate expenditures of the municipality, and it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. Section 200.065(2), Florida Statutes, requires that the City Council compute a millage rate necessary to fund the portion of the budget to be funded with ad valorem taxes, adopt a resolution or ordinance stating the millage rate to be levied, and prepare and consider tentative and final budgets.
- (27) The City Council by Resolution No. 96-18 adopted a budget for the 1996-97 fiscal year on November 25, 1996. The budget was originally adopted by Resolution No. 96-16 on September 23, 1996, but the budget had to be re-adopted because a line item was omitted from the original advertisement for the proposed 1996-97 fiscal year budget, which required readvertisement of the budget. Additionally, the City Council by Resolution No. 97-15 adopted a budget for the 1997-98 fiscal year on September 22, 1997. The budgets were adopted on a basis consistent with generally accepted accounting principles. The City's budgeted appropriations for expenditures (excludes interfund transfers) totaled \$6,526,799 and \$7,414,149 for the 1996-97 and 1997-98 fiscal years, respectively. Our review disclosed several deficiencies and/or noncompliance with applicable law in the preparation, adoption,

amendment, and implementation of the budget that could result in over- or undertaxing and inadequate information being provided to taxpayers, as discussed in the following paragraphs.

Budget Preparation

- (28) Although required by Section 166.241(3), Florida Statutes, the City did not consider all beginning fund equities available from prior fiscal years when preparing the 1996-97 and 1997-98 fiscal years budgets. The amounts of such balances brought forward have a direct impact on the amount of additional funds to be raised to finance City operations. In addition, the 1996-97 and 1997-98 fiscal years budgets did not include appropriations for one special revenue fund.
- (29) Section 166.241(3), Florida Statutes, states that the amount available from taxation and other sources, including amounts carried over from prior fiscal years, must equal the total appropriations for expenditures and reserves. The City, in preparing its 1996-97 and 1997-98 fiscal years budgets as advertised and adopted, did not consider the effect of all beginning fund equities available from prior fiscal years. Although the City's general purpose financial statements for the 1995-96 fiscal year showed a total ending fund equity of \$4,625,488 (excludes contributed capital) for all governmental and proprietary fund types, the City's 1996-97 fiscal year budget did not show any beginning fund equities. Similarly, although the City's general purpose financial statements for the 1996-97 fiscal year showed a total ending fund equity of \$5,025,891 (excludes contributed capital) for all governmental and proprietary fund types, the City's 1997-98 fiscal year budget showed beginning fund equities totaling only \$683,149 (proprietary fund retained earnings representing moneys set aside for equipment replacement).
- (30) Fund equity represents a governmental entity's net available resources. Although some portion of ending fund equity may be reserved for specific purposes and not be available for immediate expenditure in the subsequent fiscal year, estimated prior year ending fund equities should be carefully considered and included in the budget as the amounts of such balances brought forward have a direct impact on the amount of additional funds to be raised to finance City operations. If balances brought forward are significantly underestimated, the amount of taxes or other revenue sources contemplated in the proposed budgets may be increased beyond those amounts necessary to carry out planned expenditures. We recommend that the City, pursuant

to Section 166.241(3), Florida Statutes, consider all beginning fund equities when preparing future annual budgets.

- (31) Section 166.241(3), Florida Statutes, provides that the budget must regulate expenditures of the municipality, and it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. Accordingly, it is unlawful for the City to expend moneys for purposes not contemplated by the budget. The City expended Federal Community Development Block Grant (CDBG) program moneys totaling \$511,677 and \$165,546 during the 1996-97 and 1997-98 fiscal years, respectively. The receipt and expenditure of these Federal awards are accounted for in a special revenue fund. Although the City Council approved the grant agreements that were the basis for CDBG program expenditures during the 1996-97 and 1997-98 fiscal years, the budgets adopted by the City Council for those fiscal years pursuant to Resolution Nos. 96-18 and 97-15, respectively, did not include budgeted appropriations for the CDBG special revenue fund. We recommend that the City, pursuant to Section 166.241(3), Florida Statutes, consider all planned expenditures when preparing future annual budgets.

Budget Adoption and Amendment

- (32) The City Council did not adopt by ordinance the original budget and budget amendments for the 1996-97 or 1997-98 fiscal years, which is not consistent with the provisions of Section 166.241(3), Florida Statutes.
- (33) Section 166.241(3), Florida Statutes, requires that the governing body of each municipality adopt a budget each fiscal year by ordinance unless otherwise specified in the municipality's charter. As the City's *Municipal Code* (see paragraph 3) does not address the method of budget adoption and amendment for the City, the City Council is required to adopt the budget by ordinance.
- (34) For the 1996-97 and 1997-98 fiscal years, the City Council, as discussed in paragraph 27, adopted budgets by resolution rather than by ordinance. While the City's procedures for adopting a budget by resolution complied with the provisions of Section 200.065, Florida Statutes, they did not conform to the ordinance requirements of Section 166.041, Florida Statutes, which includes certain provisions not applicable to a resolution. For example, Section 166.041(3)(a), Florida Statutes, requires that the notice of proposed enactment of the

ordinance published by the City in the local newspaper include the title of the ordinance and the place where the ordinance may be inspected. In addition, such notice is required to be made at least ten days prior to the adoption of the ordinance.

- (35) The City Council at its October 27, 1997, meeting approved budget amendments to the 1996-97 fiscal year budget, and at its May 26, 1998, July 27, 1998, and October 26, 1998, meetings approved budget amendments to the 1997-98 fiscal year budget. However, these budget amendments were not adopted by ordinance. We are unaware of any legal authority for the City Council to adopt budget amendments in a manner other than by ordinance.
- (36) We recommend that the City Council, in the future, either adopt the budget and budget amendments by ordinance as required by Section 166.241(3), Florida Statutes, or amend the City's *Municipal Code* to establish alternative procedures for the adoption of the budget and budget amendments.

Budget Overexpenditures

- (37) City records did not clearly identify the legal level of budgetary control (i.e., the level at which expenditures may not legally exceed amounts budgeted) established by the City Council. Also, for the 1996-97 fiscal year, the City overexpended its total budget by \$243,907, contrary to Section 166.241(3), Florida Statutes.
- (38) Section 166.241(3), Florida Statutes, requires governing bodies of municipalities to adopt a budget each year and provides that the budget must regulate expenditures of the municipality and that it is unlawful for any officer of a municipal government to expend or contract for expenditures in any fiscal year except in pursuance of budgeted appropriations. However, it does not establish the level of detail at which budgeted appropriations are to be made. Likewise, Section 200.065(2), Florida Statutes, requires the City Council to adopt a budget but does not establish the level of detail for the budget. Additionally, the City's *Municipal Code* does not establish the legal level of budgetary control. Consequently, it is incumbent on the City Council to make appropriations and adopt a budget at the level of detail that it deems necessary. Once the legal level of control has been established by the City Council, expenditures must be limited accordingly.

- (39) For the 1996-97 and 1997-98 fiscal year budgets, City staff prepared a budget for presentation to the City Council members showing budgeted revenues by fund and expenditures at the object level, generally by department for each fund. As noted in paragraph 27, the City's 1996-97 and 1997-98 fiscal years budgets were established by Resolution Nos. 96-18 and 97-15 adopted November 25, 1996, and September 22, 1997, respectively, by the City Council. Resolution No. 96-18 states that the City Council examined and reviewed its budget for the 1996-97 fiscal year, believed that the City could be operated from a total budget of \$7,846,683, and resolved that the budget was "hereby established at \$7,846,683 for the 1996-97 year." Resolution No. 97-15 includes similar language. It was not clear from the Resolutions whether the City Council adopted the budget that had been prepared by City staff and examined and reviewed by City Council members (in which case the level of control would have been established at the object level) or simply established a total budget amount for the City as a whole. However, we noted that budget amendments for the 1996-97 and 1997-98 fiscal years approved by the City Council (see paragraph 35) were prepared at the object level. We further noted that, according to Notes 1 to the City's 1996-97 and 1997-98 fiscal year audited financial statements, budgetary control is exercised at the department level. Consequently, it was not clear from the City's records as to what legal level of budgetary control (i.e., the level at which expenditures may not legally exceed amounts budgeted) was established by the City Council.
- (40) Budgeting affords the City an opportunity to plan a level of expenditures that will meet the City's obligation to provide services at a level and quality required for the health, safety, and welfare of the community while at the same time remaining within its financial capability. However, if the legal level of budgetary control is not established at a sufficiently detailed level (e.g., fund, department, function), the effectiveness of the budget as a means of controlling expenditures within available resources is limited. We recommend that the City Council establish a legal level of budgetary control that is clearly stated, is at a sufficiently detailed level, and is consistently applied when making budget amendments.
- (41) Although, as discussed above, the legal level of budgetary control was not clearly established, we noted that the City's total actual expenditures/expenses and other financing uses for the 1996-97 fiscal year, as shown on the City's audited financial statements (excludes the CDBG program revenues and expenditures, which were not budgeted as discussed in paragraph 31), exceeded budgeted expenditures/expenses and other financing uses by \$243,907 contrary to

Section 166.241(3), Florida Statutes. For the 1997-98 fiscal year, total actual expenditures/expenses and other financing uses did not exceed budgeted expenditures/expenses and other financing uses. Failure to strictly adhere to the adopted budget could result in the City incurring expenditures in excess of available resources. Although the City had available resources for the 1996-97 fiscal year to offset the above overexpenditures, we recommend that the City, in accordance with Section 166.241(3), Florida Statutes, ensure that future expenditures do not exceed budgetary authority.

Investments

(42) Section 166.261, Florida Statutes, provides limitations on the authorized types of investments for City funds. Section 218.415, Florida Statutes, requires that investment activity of a unit of local government be consistent with a written investment plan adopted by the governing body or that the investment activity be conducted in accordance with alternative investment guidelines as set forth in Section 218.415(15), Florida Statutes. The City has not adopted an investment policy and is therefore required to follow the investment guidelines as set forth in Section 218.415(15), Florida Statutes, which authorizes the following types of investments for local governments:

- Local Government Surplus Funds Trust Fund, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes;
- Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- Savings accounts in State-certified qualified public depositories, as defined in Section 280.02, Florida Statutes;
- Certificates of deposit in State-certified qualified public depositories, as defined in Section 280.02, Florida Statutes;
- Direct obligations of the United States Treasury; and
- Federal agencies and instrumentalities.

- (43) Section 2-60(g) of the *Municipal Code* provides that the City's Finance Director shall not, without first obtaining approval from the City Council, invest any City funds in any manner, open any certificate of deposit accounts, or transfer or rollover any certificate of deposit accounts. According to the City's audited financial statements, the City had cash and investments totaling \$4,466,233 and \$4,912,426 at September 30, 1997, and 1998, respectively. These amounts consisted almost entirely of interest-bearing accounts and certificates of deposit at local banking institutions (\$1,000 was invested in a United States Treasury Bond).
- (44) During the period October 1, 1996, through June 30, 1998, the City maintained significant balances of surplus City moneys in low interest money market or checking accounts and reported interest earnings net of service charges of approximately \$61,000. However, additional interest earnings of \$47,680 could have been earned had the excess funds been invested through the Florida State Board of Administration.
- (45) During the period October 1, 1996, through June 30, 1998, the City primarily invested funds in excess of its current needs in interest-bearing accounts and certificates of deposit at local banking institutions. In an effort to increase the interest rates earned on surplus funds, the City Council considered various investment options at its June 9, 1997, June 23, 1997, and July 14, 1997, meetings. At the June 9, 1997, City Council meeting, the Finance Director outlined four options in low risk categories to invest surplus operating moneys. The options included certificates of deposit, overnight sweep accounts, cash management (i.e., accept bids to place all City funds with one bank), and the Florida State Board of Administration (SBA). At its June 23, 1997, meeting the City Council approved a motion to move some funds from money market accounts to certificates of deposit.
- (46) According to the minutes for the City Council's July 14, 1997, meeting, the Finance Director reported that local banking institutions had agreed to pay interest on all City accounts at the current yield of 5.03 percent, expressed some concern about commingling funds with the SBA, and informed the City Council that the City was required to adhere to certain bond ordinances. The Finance Director also indicated that higher yields were available with the SBA should the City Council desire to invest with them. The City Council took no action regarding the interest-bearing accounts.

- (47) Our review of the interest rates earned at one of the local banking institutions disclosed that the rates were increased during the period August 1997 through December 1997 and ranged from 4.60 to 4.84 percent during that period of time. However, in January 1998, the banking institution reduced the interest rates to approximately the same level that existed prior to the City Council's decision at its July 14, 1997, meeting to leave funds with the local banking institution. The interest rates earned on City funds held by this banking institution during the period January 1998 through June 1998 ranged from 2.22 percent to 3.70 percent. We further noted that, although another banking institution increased its interest rates in July 1997 to over 5 percent, it began assessing a service charge (monthly service charges ranged from \$155.44 to \$1,550.79 during the period August 1997 through June 1998). Consequently, the effective rate of return on these funds was lower than 5 percent.
- (48) For the period October 1, 1996, through June 30, 1998, the City reported interest earnings net of service charges of \$61,005.75 on average monthly cash balances of such funds ranging from \$482.04 to \$393,970.34 at interest rates ranging between .74 and 5.24 percent. In comparison, had excess funds in these accounts available for investment with the SBA (i.e., for which there were no bond ordinances or other legal restrictions prohibiting the investment of the funds with the SBA) been placed with the SBA during the same time period, the City could have earned additional interest of \$47,680 at interest rates ranging between 5.37 and 5.66 percent. Of the \$47,680 of additional estimated interest, \$37,750 (79 percent) was for the period October 1, 1996, through June 30, 1997, prior to the City Council's change in investment strategy as discussed in paragraph 45. Although substantial improvement resulted from the movement of some excess funds to certificates of deposit and the increase in interest rates on interest-bearing accounts, the City could have earned an additional \$9,930 in interest subsequent to the above-noted change in investment strategy.
- (49) To maximize interest earnings on surplus City funds and thereby reduce the costs borne by the taxpayers for the services provided by the City, we recommend that the City continue to review its investment practices and, when appropriate, invest through the SBA or in other authorized investments offering competitive returns consistent with safety and liquidity requirements.

General Fixed Assets

- (50) According to the City's audited financial statements, the City had net fixed assets totaling \$15,174,578 and \$16,707,506 as of September 30, 1997, and September 30, 1998, respectively. Of these amounts, \$12,406,978 and \$13,603,456 were related to the proprietary fund types as of September 30, 1997, and September 30, 1998, respectively. A system of accountability for an entity's fixed assets such as tangible personal property should include the establishment of general ledger control accounts to provide a basis for reporting of tangible personal property; individual records for property items to establish accountability for each item acquired; a uniform property numbering system to establish the property's identity and ownership; and an annual physical inventory of the property items, together with a reconciliation of the physical inventory to the property subsidiary records and general ledger control accounts, to assure the accuracy of the recorded accountability. The results of our examination of the City's records and internal controls for fixed assets are described under the appropriate subheadings below.

General Ledger Control Accounts

- (51) The City had not established general ledger control accounts to account for fixed assets reported in the general fixed assets account group (i.e., fixed assets not associated with proprietary fund types). Additionally, we noted differences between general ledger control accounts and the fixed asset inventory (subsidiary) records for proprietary fund types.
- (52) General ledger control accounts are used to accumulate the total investment in fixed assets. Additionally, control accounts are summary accounts intended to control accountability for the fixed asset records by providing a basis for reconciliation of the individual fixed asset records to the accounting records. To be effective as control accounts, entries to the accounting control accounts should be posted contemporaneously with entries to the individual fixed asset records.
- (53) The City had not established general ledger control accounts for fixed assets reported in the general fixed assets account group (i.e., fixed assets not associated with proprietary fund types). According to the City's audited financial statements, the City reported fixed assets totaling \$2,767,600 and \$3,104,050 as of September 30, 1997, and 1998, respectively, in the general fixed assets account group. Additionally, while the City maintains general ledger control accounts for fixed assets of proprietary fund types, we found differences between the

general ledger control account totals and the subsidiary record totals. Amounts recorded in the fixed asset subsidiary records for the proprietary fund types were less than the amounts recorded in the general ledger control accounts by \$3,034,898 and \$2,501,846 at September 30, 1997, and September 30, 1998, respectively. These differences are primarily attributable to audit adjustments related to the City's annual audits conducted pursuant to Section 11.45(3)(a)4., Florida Statutes, that were posted to the general ledger control accounts but not to the subsidiary records.

- (54) To improve accountability over the City's fixed assets, we recommend that the City establish general ledger control accounts for all fixed assets and periodically reconcile these accounts to the individual fixed asset subsidiary records to ensure that control accounts are in agreement with the subsidiary records.

Tangible Personal Property Records

- (55) The City's fixed asset subsidiary records did not include all of the information necessary to properly identify, and evidence the establishment of accountability for, tangible personal property items. Specifically, the City had not established a uniform property numbering system to account for tangible personal property. Although some property numbers were assigned to tangible personal property, the numbers were not recorded in the fixed asset subsidiary records. Additionally, we noted several instances where the fixed asset subsidiary records had not been promptly adjusted for deletions of tangible personal property.
- (56) To assure proper accountability and safeguarding of tangible personal property, the City should maintain an adequate record of each property item. The City maintained computerized fixed asset subsidiary records that identified fixed assets, including tangible personal property items, by department, description, location, original cost, quantity on hand, model number, and serial number. However, the City had not established a uniform property numbering system to account for tangible personal property. Although some property items were assigned a property number (i.e., a property number was affixed to or otherwise marked on the property item), the numbers were not recorded in the fixed asset subsidiary records.
- (57) Our audit tests, which included 29 property items with recorded costs totaling \$47,441.62 selected from the fixed asset subsidiary records as of September 30, 1998, disclosed instances where the fixed asset subsidiary records had not been promptly adjusted for deletions of

tangible personal property. Of the 29 tangible personal property items, 4 could not be located by City staff.

- For 2 of the 4 items, both assigned to the Police Department, a fixed asset deletion form had not been completed, nor was there any other documentation of record evidencing that the City intended to dispose of the items. One item was a Sharp copier and the other item was computer equipment which were valued at \$4,750 and \$2,500, respectively, in the fixed asset subsidiary records. Subsequent to our review in January 1999, fixed asset deletion forms were prepared for these two items which indicated that the copier had been sold in 1983 and the computer equipment had been traded-in for new computer equipment.
- The other two items, a radar detector valued at \$1,745 assigned to the Police Department and a lawn mower valued at \$799.95 assigned to the Cemetery Department, were supported by properly completed fixed asset deletion forms dated December 11, 1997, and September 9, 1998, respectively, but had not, at the time of our review in January 1999, been deleted from the fixed asset subsidiary records.

(58) The establishment of a uniform property numbering system and the maintenance of complete and accurate tangible personal property records are necessary to provide a basis for accountability over and the safeguarding of the tangible personal property. In the absence of such a system and records, there is an increased possibility that errors and irregularities could occur and not be detected in a timely manner. We recommend that the City establish a uniform property numbering system to account for tangible personal property and ensure that all property numbers assigned are entered into the fixed asset subsidiary records. Additionally, we recommend that the City ensure that deletions of property are recorded to the fixed asset subsidiary records in a timely manner.

Annual Tangible Personal Property Inventory

(59) The results of the City's annual physical inventory of tangible personal property was not, in some instances, reconciled to the fixed asset subsidiary records.

(60) Good internal control necessitates that a complete and timely physical inventory of property be taken periodically and that the inventory be compared with the property records with all

discrepancies traced and reconciled. City staff maintained inventory sheets to document the results of annual physical inventories of tangible personal property. In response to our inquiry regarding the reconciliation of the annual physical inventory to the fixed asset subsidiary records, the Finance Director stated, “a copy of each department’s fixed asset inventory is given to the respective supervisor on a yearly basis and I update the fixed asset inventory based on the information I receive from them.” However, based on the results of our audit tests, it appears, in some instances, the results of the annual physical inventory were not reconciled to the fixed asset subsidiary records. Our test of 19 property items that we physically observed and attempted to trace back to the fixed asset subsidiary records disclosed 4 items (a parts washer, refrigerator, computer, and telephone battery back-up system) that, although they had been inventoried as indicated on the inventory sheets, were not recorded in the fixed asset subsidiary records. On February 26, 1999, fixed asset addition forms were prepared for these four items although the items had not been added to the fixed asset subsidiary records. To improve the safeguarding of tangible personal property, we recommend that City personnel ensure that the results of the annual physical inventory are reconciled to the fixed asset subsidiary records and all discrepancies are traced and reconciled.

Restricted Funds

- (61) The City did not maintain separate accountability for the use of certain transportation-related restricted revenues through the use of special revenue funds. Although, according to the City’s accounting records, the City’s transportation-related expenditures in the General Fund exceeded the amount of these restricted revenues received for the period October 1996 through September 1998, the use of special revenue funds, as required by the Florida Department of Banking and Finance’s *Uniform Accounting System Manual*, would enhance the City’s ability to control the use of restricted moneys.
- (62) Section 218.33(2), Florida Statutes, provides for the Florida Department of Banking and Finance (FDBF) to promulgate reasonable rules regarding uniform accounting practices and procedures by units of local government, including a uniform classification of accounts, as it deems necessary to assure the use of proper accounting and fiscal management techniques by such units. To that end, the FDBF has developed a *Uniform Accounting System Manual (Manual)* which establishes financial accounting and reporting requirements for all units of local government. Chapter 1 of the *Manual* requires that units of local government use the

classification of funds as prescribed in the *Manual* and classifies a special revenue fund as the fund to use “To account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.”

- (63) In accordance with generally accepted accounting principles, the City’s resources are required to be allocated to and accounted for in individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. In accordance with the FDBF *Manual*, the City is required to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes in special revenue funds. To maintain separate accountability for restricted revenue sources, the City should establish a special revenue fund for each type of restricted revenue source.
- (64) The City receives several types of revenues that are legally restricted to expenditure for specified purposes, including the following:
- The City receives motor fuel taxes pursuant to Section 206.41(1)(c), Florida Statutes. Section 206.605(2), Florida Statutes, limits the use of these taxes to the purchase of transportation facilities and road and street rights-of-way; construction, reconstruction, and maintenance of roads and streets; the adjustment of city-owned utilities as required by road and street construction; transportation-related public safety activities; and the maintenance and operation of transportation facilities.
 - Pursuant to Section 206.60(1)(b), Florida Statutes, the City receives from the Walton County Board of County Commissioners a portion of the county motor fuel tax imposed pursuant to Section 206.41(1)(b), Florida Statutes. Section 206.60(1)(b)1., Florida Statutes, limits the use of funds derived from these taxes to acquisition of rights-of-way; construction, reconstruction, operation, maintenance, and repair of transportation facilities, roads, and bridges; or the reduction of bonded indebtedness incurred for road, bridge, or other transportation purposes.
- (65) The City did not use a separate special revenue fund for, or otherwise separately account for the use of, these restricted revenue sources, which totaled \$285,213 for the period October

1996 through September 1998, but rather accounted for them in the General Fund, together with unrestricted City revenues. According to the City's accounting records, the City's transportation-related expenditures in the General Fund exceeded the amount of these restricted revenues received for the period October 1996 through September 1998. However, given the lack of separate accountability as noted above, the City cannot be assured that all such restricted revenues received have been utilized for authorized purposes as prescribed by Sections 206.60(1)(b)1. and 206.605(2), Florida Statutes, since the inception of these revenue sources, nor was it practical for us to make such a determination.

- (66) Under the conditions noted above, the City's ability to control the use of restricted moneys is diminished and could result in the use of restricted moneys for purposes not consistent with the authorized use of the restricted moneys. We recommend that the City establish accountability for each restricted revenue source through the use of a separate special revenue fund in accordance with the *FDBF Manual*. We further recommend that the City, to the extent practical, review balances on hand and recent transactions to ensure that all restricted moneys have been used for authorized purposes.

Personnel and Payroll Administration

- (67) The City had 75 full-time employees and elected officials as of September 30, 1997, and salary expenditures/expenses of approximately \$1.3 million for the 1996-97 fiscal year. Personnel policies of the City are addressed by the City's *Personnel Policy (Policy)*, which the City Council adopted by Resolution No. 87-12 on November 23, 1987. Pursuant to Article 1, Section 2 of the *Policy*, the City Manager is responsible for the administration of the personnel program, including interpretation of the various provisions of the personnel policies and procedures. Pursuant to Section 2-45 of the *Municipal Code*, the City Manager is responsible for hiring City employees and recommending salary increases for all City employees in accordance with the rules and regulations established in the *Policy*. The City Manager is also responsible for suspending or terminating City employees; however, such suspension or termination may be overturned by an affirmative vote of four members of the City Council.

Salaries in Excess of Maximum Range

- (68) In some instances, employees' salaries for the 1996-97 fiscal year were above the maximum range established in the City's Job Classification & Description plan (Plan). Also, the City Council had not, of record, approved the Plan.
- (69) The City Manager established a *Job Classification & Description plan (Plan)* that provided a description of each City position and the respective annual minimum and maximum salary ranges; however, the *Plan* was not, of record, approved by the City Council. Our test of 60 salary expenditures involving 40 employees and public officials for the 1996-97 fiscal year disclosed 6 (15 percent) employees whose salaries were above the maximum range established for their position as provided for in the *Plan*. The amount above the maximum salary ranges for the six employees for the 1996-97 fiscal year totaled \$13,953.20 and ranged from \$459.20 to \$5,007.20. Although the City Council, as part of the annual budgetary process, is provided with documentation evidencing the current and proposed salaries for each City employee, to further ensure that such salaries are established and maintained in accordance with the City Council's intentions, we recommend the *Plan* be submitted to the City Council for its approval. We also recommend that the City Council evaluate the adequacy of the salary ranges, revise the salary ranges as necessary, and take appropriate action to make employee salaries consistent with salary ranges established in the *Plan*.

Employee Benefits

- (70) Two employees on extended leaves of absences without pay during the period June 1994 through June 1996 received holiday and/or incentive pay and their health insurance premiums were paid by the City. These benefits do not appear to be clearly allowable in the Personnel Policy.
- (71) Article 5, Section 1.8 of the City's *Personnel Policy (Policy)* states, "the employee may apply for leave without pay (LWOP) status which, along with any paid leave that has been taken, shall not exceed 180 days." The *Policy* further states, "In extenuating circumstances, the City Manager may extend the period of leave up to a total of 365 days." Also, Article 5, Section 2 of the *Policy*, provides that the City shall pay 100 percent of premium cost for individual coverage of each full-time employee for health insurance. The *Policy* also provides that employees not in active full-time employment must pay the entire costs of insurance during the

periods they are inactive; however, it does not define what constitutes active full-time employment. Additionally, Article 5, Section 1.2 of the *Policy*, provides that to be eligible for holiday pay an employee must have worked on the scheduled day prior to the holiday except in certain specified instances. One of these instances includes when an employee is absent because of sickness or accident and brings in a doctor's statement indicating medical attention has been received. The *Policy* further provides, "An employee who has been absent from work for any reason for fifteen (15) consecutive calendar days prior to the holiday will not be eligible for holiday pay."

(72) Our review of the City's compliance with the above sections of the *Policy* disclosed that two employees on extended leaves of absences without pay during the period June 1994 to June 1996 received holiday and/or incentive pay and their health insurance premiums were paid by the City, as discussed below:

- A former Gas Department Supervisor was placed on leave without pay from June 1994 through June 1996 due to an injury. The City paid \$1,835 and \$2,760 in holiday and incentive pay, respectively, to this employee, and \$3,459 of insurance premiums for this employee, during that period. The incentive pay program, which is designed to compensate certain employees required to attend school to upgrade their skills, is not addressed in the *Policy*; however, the program was approved by the City Council at the August 24, 1987, City Council meeting.
- An employee in the Parks and Recreation Department was placed on leave without pay from November 1994 through February 1995 due to an injury. The City paid \$476 in holiday pay to this employee and \$447 of insurance premiums for this employee during that period.

(73) Since Article 5, Section 2 of the *Policy*, does not define what constitutes active full-time employment, it is not clear whether the payment of health insurance premiums for employees on leave of absence without pay due to illness is allowable. As noted above, Article 5, Section 1.2 of the *Policy*, allows employees who have not worked on the scheduled day before a holiday to be eligible for holiday pay in certain specified instances. However, the *Policy* provides that an employee who has been absent from work for any reason for 15 consecutive calendar days prior to the holiday will not be eligible for holiday pay. Therefore, it does not

appear that the above employees were eligible for holiday pay. Further, although the City Council approved the incentive program, such approval did not provide for employees on leave without pay to participate in the incentive program.

- (74) We recommend that the City Council make, of record, a determination as to whether the above-noted payments totaling \$8,977 to, or on behalf of, employees while on leave without pay were consistent with the City's *Policy* and, if appropriate, based on such determination, seek reimbursement from the employees. If it is the City Council's intention to pay future holiday pay and health insurance premium costs for employees on leave without pay, we recommend that the *Policy* be amended to clearly reflect that such employees are eligible for these benefits. Until the City Council takes such action, payments such as those described above, made to or on behalf of employees on leave without pay, should be discontinued. We also recommend that the City Council amend the *Policy* to reflect any incentive pay programs that employees are eligible to participate in on a continuing basis.

Compensatory Time

- (75) To appropriately demonstrate compliance with Federal laws governing compensatory time, the City should review its *Personnel Policy* for consistency with its actual compensatory time payment practices.
- (76) Title 29, Section 553.23, Code of Federal Regulations, requires that State and local governments have an agreement or understanding arrived at with employees before the performance of work resulting in compensatory time. This can be accomplished pursuant to a collective bargaining agreement, a memorandum of understanding, or any other agreement between the local government and representatives of the employees. Agreements or understandings may provide that compensatory time off in lieu of overtime payment in cash may be restricted to certain hours of work only and may provide for any combination of compensatory time off and overtime payment in lieu of cash so long as the premium pay principle of "time and one half" is maintained.
- (77) Article 4, Section 5 of the *Policy*, provides that employees who are requested by their supervisor to work more hours than the standard work week established for their position will be compensated at the rate of one and one-half times the hourly rate for the position. All overtime shall be approved by the City Manager prior to incurring overtime. Article 4,

Section 6.2 of the *Policy*, provides that all employees who are legally eligible for overtime pay in accordance with Federal law shall be granted compensatory time equivalent to one and one-half times the normal rate earned by the employee.

- (78) According to the City Manager, employees who were eligible to receive overtime pay were given the option of receiving overtime pay or compensatory time. If the employee opted for compensatory time, they had to use it within 30 days or else receive overtime pay. However, the *Policy* does not discuss the 30-day time limit or the employee's choice between compensatory time and overtime pay. As such, the *Policy* and the City's actual compensatory time payment practices are not consistent. To appropriately demonstrate compliance with Federal laws governing compensatory time, we recommend that the City Council evaluate whether the City's actual compensatory time payment practices are consistent with its intentions and amend, as appropriate, the *Policy*.

Procurement of Goods and Services

- (79) The authority for City officials to expend moneys is set forth in various provisions of general or special law and in ordinances enacted by the City Council. Expenditures of public funds must, to qualify as authorized expenditures, be shown to be authorized by applicable law or ordinance; reasonable in the circumstances and necessary to the accomplishment of authorized purposes of the governmental unit; and in pursuit of a public, rather than a private, purpose. These limitations require City officials seeking to expend public funds to identify the authority relied upon for the contemplated expenditure and to adequately describe how the expenditure will further an authorized public purpose. The Attorney General has stated, in part, in Opinion No. 068-12, dated January 25, 1968, that:

“Vouchers for payment of public funds, whether state, district or county, submitted or to be submitted to the paying agency should contain sufficient information for the paying agency, or its preauditors or officials and the postauditor to determine whether the requested payment is authorized by law. Doubtless, in many instances the purposes for which payment is requested will appear, without explanation, from the face of the voucher; however, in many other instances the legality of the payment requested will not appear from the face of the voucher. In those instances where the legality of the requested payment is not readily apparent to the paying agency the paying agency is justified in turning down the request for payment or requesting clarification. The person issuing the voucher for payment is obligated to cast such vouchers in such language as will indicate to the postauditor or the public the legality of such payments.”

- (80) The documentation of an expenditure in sufficient detail to establish the authorized public purpose served, and how that particular expenditure serves to further the identified public purpose, should be present at the point in time when the voucher is presented for payment of funds. Unless such documentation is present, the request for payment should be denied. To provide documented assurances that expenditures of City funds are for authorized public purposes, City officials are responsible for establishing and maintaining internal controls, including the adoption of sound accounting practices, that will provide for the proper recording, processing, summarizing, and reporting of financial data. The internal controls should include an accounting system to identify, assemble, analyze, classify, record, and report transactions and to maintain accountability for the related assets and liabilities.
- (81) The nature of our audit required that we form judgments as to the propriety of City expenditures. Our audit disclosed a number of expenditures for which the City had not adequately documented: (1) the propriety of the expenditures (i.e., that they served a public purpose and were in compliance with applicable laws, ordinances, and other guidelines); (2) the amounts expended were reasonably determined in relation to the goods or services acquired; and/or (3) the goods or services were acquired using good business practices (i.e., a competitive selection process and/or written agreements). These expenditures totaled \$1,225,665, including \$136,359 that were unauthorized and/or inadequately supported as to their propriety.
- (82) Our detailed findings and recommendations concerning noncompliance with governing laws, ordinances, and other guidelines, as well as those detailed findings and recommendations concerning the public purpose for particular expenditures and the adequacy of documentation to demonstrate such public purpose, are presented under appropriate subheadings below.

General Disbursements

Disbursement Processing

- (83) Our test of expenditure vouchers disclosed deficiencies in the City's disbursement processing procedures that may limit the City's ability to ensure that goods and services are received in the quantity and quality contemplated by management's authorization.

- (84) Although the City has not established written procedures governing disbursements, the City documents these disbursements by completing a request for purchase order (i.e., requisition) and a purchase order; obtaining a vendor invoice; and, in some instances, obtaining a shipping receipt. These documents, together with a duplicate copy of the check, comprise the voucher package. During the 1996-97 and 1997-98 fiscal years, Section 2-1(j) of the *Municipal Code* required that all purchases be supported by a purchase order.
- (85) Our test of 60 City expenditure vouchers for the 1996-97 and 1997-98 fiscal years totaling \$89,980 disclosed deficiencies in the City's disbursement processing procedures. Specifically, for 58 of these expenditure vouchers totaling \$87,296, we noted one or more of the following deficiencies:
- In 28 instances, purchases were not supported by a request for purchase order, including 5 instances in which the purchase was not supported by a purchase order.
 - In 9 instances the request for purchase order and/or the purchase order was not complete in that no dollar amount was shown.
 - In 11 instances, the goods or services were received prior to the completion of the purchase order. The purchase orders were dated from 5 to 128 days after the invoice date.
 - In 58 instances, invoices submitted for payment were not properly canceled or stamped as paid after payment.
- (86) The failure to properly complete a request for purchase order and purchase order documenting prior approval of purchases of goods and services may limit the City's ability to ensure that goods and services are received in the quantity and quality contemplated by management's authorization. The failure to cancel all paid invoices could result in duplicate payments and increases the possibility of vendor billing disputes. Subsequent to our review, the City amended Section 2-1(j) of the *Municipal Code* to discontinue the use of purchase orders for certain recurring expenditures. We recommend City personnel ensure that requests for purchase orders and purchase orders are properly completed and approved prior to purchase, where appropriate, and that all invoices are marked as paid or properly canceled.

Contributions to Nongovernmental Organizations

- (87) The City made cash contributions totaling \$45,638 and \$52,550 to a total of 14 different nongovernmental organizations during the 1996-97 and 1997-98 fiscal years, respectively, for which the City had not implemented adequate procedures to obtain an appropriate level of assurance that the public funds were used for a specified public purpose.
- (88) Article VII, Section 10 of the Constitution of the State of Florida, states, “Neither the state nor any county, school district, municipality, special district, or agency of any of them, shall become a joint owner with, or stockholder of, or give, lend or use its taxing power or credit to aid any corporation, association, partnership or person” According to Attorney General Opinion No. 96-90, the purpose of this provision is “to protect public funds and resources from being exploited in assisting or promoting private ventures when the public would be at most incidentally benefited.”
- (89) The question as to whether a governmental entity can make donations to or otherwise use its resources to aid a nongovernmental entity has been the subject of several court decisions and Attorney General Opinions. According to Attorney General Opinion No. 079-56, the Florida Supreme Court has held that a governmental entity may utilize a nonprofit corporation as a medium to accomplish a public purpose provided that certain conditions are met. There must be a clearly identified and concrete public purpose as the primary objective and a reasonable expectation that such purpose will be substantially and effectively accomplished. Also, the governmental entity must retain sufficient control over the use of the public funds by the nonprofit corporation. Similarly, in addressing the issue of whether a board of county commissioners was authorized to donate moneys to a nonprofit organization, the Attorney General, in Opinion No. 86-44, states that the board must maintain some degree of control over the public funds to assure accomplishment of the public purpose.
- (90) The City made cash contributions to a total of 14 different nongovernmental organizations totaling \$45,638 and \$52,550 during the 1996-97 and 1997-98 fiscal years, respectively. The nongovernmental organizations included, for example, the Walton County Economic Development Council, Walton County Chamber of Commerce, DeFuniak Little League Association, and Florida Chautauqua, Inc. During the City’s annual budget process the City Council approves the amount of funding that the City is to provide to these entities. To assist

the City Council in making these decisions, the City Manager annually sends a letter to these types of entities requesting them to submit a funding request in writing, attend the budget workshop, and provide a copy of their proposed budget and most recent income and balance sheet. Also, if any of these types of entities request funding subsequent to the adoption of the annual budget, the request is submitted to the City Council for their consideration. However, follow-up procedures were not performed to determine the ultimate use of the contributions nor did the City execute any agreements with these organizations stating the specific purposes for which the funds would be used. Absent these controls, it is not apparent how the City had an appropriate level of assurance that the moneys provided to these organizations were used for a public purpose.

- (91) To ensure compliance with Article VII, Section 10 of the Constitution of the State of Florida, we recommend that, in the future, the City obtain adequate records from these types of organizations supporting the use of public funds. We also recommend that the City enter into written agreements with the above-noted organizations, and any other such organizations to which the City makes contributions, which state the specific public purposes for which the contributions are to be used and include provisions necessary for the City to obtain an appropriate level of assurance that the moneys are used for the specified public purposes. For example, such provisions could include a requirement that the organization maintain adequate records of its expenditures and the right of City staff to examine such records.

Contributions to Governmental Entities

- (92) The City made cash contributions totaling \$14,000 to, or on behalf of, two governmental organizations during the period October 1994 through September 1998. The City Council had not, of record, demonstrated why these expenditures were the responsibility of the City rather than the other governmental entities.
- (93) Pursuant to Section 166.021(1), Florida Statutes, municipalities shall have the governmental, corporate, and proprietary powers to enable them to conduct municipal government, perform municipal functions, and render municipal services, and may exercise any power for municipal purposes, except when expressly prohibited by law. There are several governmental entities in Walton County, including a district school board and a community college, that have been created pursuant to State law and/or the Constitution of the State of Florida. Pursuant to their

enabling legislation, each of these governmental entities is responsible for generating sufficient revenues, through taxes, special assessments, fees, and other sources to allow them to carry out their specified purposes as prescribed by law.

- (94) The City Council, at its December 13, 1993, meeting, approved a motion to include in the 1994-95 fiscal year budget a \$2,000 contribution to the Okaloosa-Walton Community College Foundation, Inc. (Foundation), for the Okaloosa-Walton Community College (OWCC) Chautauqua Center over the next five years. As of September 30, 1998, the City had made payments totaling \$8,000 to the Foundation for the OWCC Chautauqua Center since October 1994. Also, at its June 10, 1996, meeting the City Council approved a request for financial support for a school resource officer for Walton Middle School and Walton High School. As of September 30, 1998, the City had made payments totaling \$6,000 to the Walton County District School Board (\$3,000 for the middle school and \$3,000 for the high school for total support of \$6,000).
- (95) In the above instances, the City Council had not, of record, demonstrated why these expenditures were the responsibility of the City rather than the other governmental entities. Inasmuch as these governmental entities are responsible for generating sufficient revenues to allow them to carry out their specified purposes, it is not apparent why the City Council used City revenues in lieu of the revenue sources available to the other governmental entities.
- (96) We recommend that the City seek clarification from the Attorney General as to the legality of making cash contributions to, or on behalf of, other governmental entities. In the absence of affirmative clarification, the City should discontinue expending its resources for such purposes.

Inadequately Documented/Unauthorized Expenditures

- (97) Our audit disclosed expenditures totaling \$4,619.43 for which the City's records did not clearly document the public purpose served.
- (98) Our audit disclosed the following expenditures totaling \$1,214.07 that did not appear to serve a public purpose:

- During the period October 1996 through September 1998, the City paid a total of \$500.50 to a local florist for flowers for funerals of employees' relatives. The City discontinued this practice effective August 1998.
- The City, in December 1996, sponsored a Christmas party for its employees and their families. The City expended \$713.57 for food, beverages, gifts for employees' children, and other accessories related to the Christmas party. The City has not sponsored a Christmas party for employees since the calendar year 1996.

(99) In addition, our audit disclosed expenditures totaling \$3,405.36 for which the City's public records did not clearly document the public purpose served. In these instances, the City Manager, in response to our inquiries, provided written explanations as to the public purpose served by expenditures for coffee service and shirts. However, these written explanations were not of record prior to payment and, consequently, the propriety of the expenditures, as discussed below, was not readily apparent from the City's records at the time of payment:

- During the period October 1996 through September 1998, the City expended \$3,283.50 for coffee and related products at City Hall, the Police Department, and the Water Utility Office. According to the City Manager, the coffee and related products are for employees, business visitors, and guests, and the coffee at City Hall is also provided for organization meetings such as the Panhandle League of Cities, United States Department of Agriculture, and for special award ceremonies. The City Manager also stated that the coffee service provides a public service and saves considerable time, and that the above-noted departments may on occasion work all day and night performing their duties in hurricanes or utility damage.
- The City, in November 1996, purchased \$916.90 of tee shirts and polo shirts for certain employees. Most of the shirts were distributed to employees who wear uniforms and work outside or go into citizens' homes. However, \$121.86 of the shirts was distributed to employees who do not have uniforms and primarily work in City Hall. According to the City Manager, the shirts were used for identification purposes and were to be worn when some type of manual labor was required, such as when administrative staff had to maintain traffic lights and perform hurricane work. He further stated that the shirts were used for incentive and a moral boost, as well as to show City pride and support.

- (100) We recommend that the City, in the future, clearly document in its public records that such expenditures serve a public purpose and reasonably and necessarily benefit the City.

Purchasing Practices

- (101) As a matter of good business practice, procurement of goods or services should be done using a competitive selection process to provide an effective means of equitably procuring the best quality of goods or services at the lowest possible cost. In addition, the City is responsible for establishing internal controls that provide assurance that the process of acquiring contractual services is effectively and consistently administered. The City's purchasing and contracting practices are primarily addressed in Section 2-1 of the *Municipal Code*, which establishes, in part, the dollar thresholds for obtaining quotes and bids for purchases and contracts, specifies the methodology for advertising for bids, and establishes procedures for sole source and emergency purchases. As discussed below, our audit disclosed deficiencies in the City's procurement practices.

Awarding of Contracts for Services

- (102) Contracts for linen services were signed without obtaining City Council approval, which does not appear to be consistent with the *Municipal Code*. Additionally, contracts for engineering and linen services were signed by an official and an employee, respectively, who were not authorized as a contract signer by the *Municipal Code*.
- (103) Section 2-45(o) of the *Municipal Code* provides that the City Manager shall sign and execute contracts on behalf of the City after approval by the City Council. Pursuant to Section 2-1 of the *Municipal Code*, the City Manager may approve contracts of \$3,000 and less without obtaining Council approval. Our review of contracts entered into by the City disclosed the following instances in which contracts were signed by a City employee or official other than the City Manager and/or were signed without City Council prior approval:
- On June 17, 1996, the former Shop Supervisor signed two linen service agreements with a linen service company although this position was not identified in the *Municipal Code* as an authorized signer of contracts. The City Manager was not notified that these agreements had been signed nor did the City Council, of record, approve these agreements. In a letter dated June 30, 1997, the City Manager notified this linen service

company that the City would be terminating their services and on October 31, 1997, the City Manager informed this company that the Shop Supervisor was not an allowable signer for contracts involving the City. For the 1996-97 fiscal year, the City expended \$12,373.24 related to the above linen service agreements.

- On July 10, 1997, the City Manager signed an agreement for linen services with a different linen services company. However, the City Council did not, of record, approve the agreement. During the period October 1996 through September 1998, the City expended \$17,274.45 for linen services from the company.
- The Mayor signed an agreement for engineering services on April 9, 1998; however, the Mayor is not identified in the *Municipal Code* as an authorized signer of contracts. The engineering agreement entered into provided for compensation totaling approximately \$60,917.

- (104) We recommend that authorized City personnel execute contracts on behalf of the City only after City Council approval to ensure compliance with the *Municipal Code*. However, if it is not the intent of the City Council to have certain contracts submitted to them prior to execution, the City Council should amend its *Municipal Code* to clearly reflect their intent.

Written Agreements

- (105) The City incurred legal and water and sewer testing services expenditures totaling \$106,026.11 during the period October 1996 through September 1998 without benefit of formal written agreements. Written agreements are a good business practice that facilitates a determination that payments for services are reasonable and in accordance with the City Council's intent.
- (106) The City obtained various services such as legal, auditing, water and sewer testing, engineering, and linen services. As a matter of good business practice, contractual arrangements for services should be evidenced by written agreements embodying all provisions and conditions of the procurement of such services. The use of a formal written contract protects the interests of the City, identifies the responsibilities of both parties, defines the services to be performed, and provides a basis for payment. Our audit disclosed that the following services were obtained without benefit of a formal written agreement:

Type of Contractual Services	Amount Paid for Services 10/96 - 9/98
Legal Services – City Attorney	\$ 31,110.75
Legal Services – Labor Relations	21,124.46
Legal Services – Sprayfield Acquisition	22,085.90
Water and Sewer Testing	<u>31,705.00</u>
Total	<u>\$106,026.11</u>

- (107) In the absence of formal written agreements specifying the nature of the services to be performed and the amount of compensation to be provided, the City lacked an adequate basis for determining that payments for these services were reasonable and in accordance with the City Council's intent. We recommend that the City, as a matter of good business practice, enter into formal written agreements with providers of services to document the nature of the services to be performed and to provide a basis for payment.

Auditing Services

- (108) The City acquired auditing services for its general purpose financial statements for the fiscal years ended September 30, 1997, and September 30, 1998, without using a competitive selection process, contrary to Section 11.45(3)(a)5., Florida Statutes.
- (109) Pursuant to Section 11.45(3)(a)4., Florida Statutes, each municipality with either revenues or expenditures of more than \$100,000 is required to provide for an annual financial audit of its accounts and records within 12 months after the end of its fiscal year by an independent certified public accountant retained by it and paid from its public funds. Effective October 1, 1996, if the certified public accountant is other than the Auditor General, the City Council is required, pursuant to Section 11.45(3)(a)5., Florida Statutes, to establish an auditor selection committee and competitive auditor selection procedures. The City Council may elect to use its own competitive auditor selection procedures or the procedures outlined in Section 11.45(3)(a)6., Florida Statutes.
- (110) Section 2-45(e) of the *Municipal Code* provides that the City Manager shall arrange for an annual audit by a certified public accountant, the selection of whom shall be approved by the City Council. Additionally, Section 2-1(k) of the *Municipal Code* indicates that at any time the

City Council deems it necessary to advertise for bids for professional or personal services, it shall be done so by vote of the majority of the City Council.

- (111) The City uses a public accounting firm to provide auditing services. The same public accounting firm has been used since 1977. Since then, the City Council has, on several occasions, voted to continue using the services of the firm, most recently in June 1997. The City Manager presented the City Council, at its June 9, 1997, meeting, with an agreement by the firm to audit the City's general purpose financial statements for the fiscal years ended September 30, 1997, and September 30, 1998, at a cost of \$29,000 and \$30,000, respectively. The City Council approved a motion to authorize the City Manager to contact the accounting firm for their best offer. The City Council at its June 23, 1997, meeting approved a motion to accept the proposal from the accounting firm in the amounts of \$28,000 and \$29,000 for the fiscal years ended September 30, 1997, and September 30, 1998, respectively. Contrary to Section 11.45(3)(a)5., Florida Statutes, the City Council did not establish an auditor selection committee and a competitive selection process was not utilized in the selection of the accounting firm.
- (112) We recommend that the City Council comply with the competitive selection provisions of Section 11.45(3)(a)5., Florida Statutes, when acquiring auditing services for the City. Additionally, the City Council should amend the *Municipal Code* to be consistent with the provisions of Section 11.45(3)(a)5., Florida Statutes (renumbered as 11.45(3)(a)6. by Section 3, Chapter 99-333, Laws of Florida).

Sole Source Purchases

- (113) The City expended \$12,679 for street repair material purchased from one vendor without documenting that other vendors were contacted to evidence that the item could only be obtained from a sole source. Documentation of such vendor contacts is required by Section 2-1(i) of the *Municipal Code*.
- (114) Section 2-1(i) of the *Municipal Code* specifies "in purchases or contracts of specialty in nature that are not commonly stocked by vendors the following shall apply: A list of vendors contacted showing the date, time, company name and representative of the company or firm contacted."

- (115) The City incurred expenditures totaling \$14,782 during the period October 1996 through September 1998 for cold mix (material used for street repairs) for use by the Street Department. Of this amount, \$12,679 was for cold mix purchased from one vendor (\$4,480 for the period April 1997 through September 1997 and \$8,199 for the period January 1998 through September 1998). According to the City Manager, one of the two vendors that supplied the cold mix discontinued selling the product and the other vendor was the only source the City knew that sold the product. The City Manager also indicated that the City believed that this was a sole source purchase after the Street Department made attempts to locate other vendors; however, written documentation such as that prescribed by Section 2-1(i) of the *Municipal Code* was not available to evidence these attempts. We recommend that the City, in the future, ensure that sole source purchases are documented in accordance with the provisions of the *Municipal Code*.

Lease Purchases

- (116) The City entered into two lease-purchase agreements to acquire a fire truck and 13 police cars at a total cost of \$415,741; however, the City granted the banks a security interest in the equipment being acquired. The Attorney General has opined that governmental agencies, including municipalities, may not legally agree to the creation of a security interest in publicly-owned assets. Also, the agreements contained provisions that appeared to limit the City Council's discretion in determining whether they should be renewed beyond the current fiscal year.
- (117) The City entered into two lease-purchase agreements on April 25, 1994, and April 23, 1996, to acquire a fire truck and 13 police cars, respectively, at a total cost of \$415,741. In both agreements, the City granted to the banks a security interest in the equipment being acquired.
- (118) Pursuant to Section 166.241(3), Florida Statutes, the City makes annual budget appropriations. Both of the above agreements contained nonappropriation provisions that would allow the City to cancel the lease in the event of nonappropriation of funds for the leases and thereby limit extending the commitments beyond one fiscal period. However, the agreement for the acquisition of the fire truck further indicated that if the City acquires or agrees to acquire for the first time either the use of or ownership of equipment similar to the equipment subject to the agreement at any time during the period beginning with the date the City notifies the Lessor

of termination of the agreement and ending one year after the expiration of the original term or renewal term, the Lessor shall be entitled to recover damages from the City. The damages would be the equivalent of a loss of a bargain and not as a penalty in an amount equal to the loss of expected net revenues the Lessor would have received if the agreement had been renewed for all periods through the end of the final anticipated renewal term. Also, the agreement for the acquisition of the police cars provided that for a period of two years after the end of the current fiscal year in which the agreement is terminated for lack of appropriated funds the City shall not purchase, lease, rent, or otherwise acquire equipment performing functions similar to those performed by the equipment under the agreement nor will the City acquire the use of equipment through any other party, agency, or entity. These provisions appear to limit the City's discretion in determining whether the agreements should be renewed beyond the current fiscal year.

- (119) The Attorney General has ruled that governmental agencies, including municipalities, may not legally agree to the creation of a security interest against publicly-owned assets (see Attorney General's Opinion Nos. 078-110, 079-72, 080-9, 98-71).
- (120) We recommend that the City, in entering into similar agreements in the future, ensure that a security interest is not granted in property and that the terms of the agreement do not restrict the City Council's discretion in determining whether the agreement will be renewed after the close of each fiscal period.

Travel Expenses

- (121) Section 112.061, Florida Statutes, governs per diem and travel expenses of public agencies, defined as any office, department, agency, division, subdivision, political subdivision, board, bureau, commission, authority, district, public body, body politic, county, city, town, village, municipality, or any other separate unit of government created pursuant to law, except that the provisions of any special or local law (and we are not aware of any such laws affecting the City of DeFuniak Springs during the audit period), present or future, shall prevail over any conflicting provisions in this Section, but only to the extent of the conflict. Among the requirements of Section 112.061, Florida Statutes, are provisions establishing uniform rates (including the amounts of reimbursement that travelers may claim) and specific documentation

requirements for the payment or reimbursement of travel expenses incurred by public officers, employees, and authorized persons in connection with official agency business.

- (122) During the 1996-97 and 1997-98 fiscal years, the City incurred expenditures of \$13,574 and \$10,846, respectively, for travel-related expenses of City officials and employees (including \$5,425 for travel allowances paid to the City Manager). Our examination of travel-related expenditures disclosed several instances in which travel expenditures were inadequately supported and/or not in accordance with Section 112.061, Florida Statutes, as discussed below.

Travel Allowance

- (123) The City Manager received a monthly travel allowance during the period October 1, 1994, through January 15, 1998. However, this monthly travel allowance was not supported by a signed statement showing a typical month's travel, contrary to Section 112.061(7)(f), Florida Statutes. As a result, the City had not demonstrated, of record, the propriety of the travel allowance. In addition, such travel allowances were not subjected to withholding for payment of Federal income tax and other employment taxes.
- (124) Among the requirements of Section 112.061, Florida Statutes, are provisions establishing uniform rates (including the amounts of reimbursement that travelers may claim) and specific documentation requirements for the payment or reimbursement of travel expenses incurred by public officers, employees, and authorized persons in connection with official agency business. Section 112.061(7)(f), Florida Statutes, provides that an agency head may grant monthly allowances in fixed amounts for use of privately-owned automobiles on official business in lieu of the mileage rate provided in Section 112.061(7)(d), Florida Statutes. Such allowances are required to be made on the basis of a signed statement of the traveler filed before the allowance is granted and at least annually thereafter. The statement is required to show the places and distances for an average typical month's travel on official business and the amount that would be allowed under the approved rate per mile for the travel shown in the statement if payment had been made pursuant to Section 112.061(7)(d), Florida Statutes.
- (125) At the September 12, 1994, City Council budget workshop meeting a \$350 per month car allowance for the City Manager was discussed and all City Council members agreed to approve the allowance becoming effective October 1, 1994. During the period October 1, 1994, through December 31, 1997, the City Manager received a monthly travel allowance of

\$350. In January 1998, the City Manager received a \$175 travel allowance because the City purchased an automobile for his use effective January 16, 1998. Allowances paid to the City Manager for the period October 1, 1994, to January 15, 1998, totaled \$13,825. The City Manager, in a memorandum dated January 12, 1995, advised the Finance Director of the total number of miles driven on his personal vehicle for the period October 1, 1994, to December 31, 1994. However, the memorandum did not show the places and distances for an average typical month's travel as required by Section 112.061(7)(d), Florida Statutes. No other memorandums for subsequent years were prepared, of record, by the City Manager documenting the number of miles driven, nor was there any other documentation available evidencing compliance with Section 112.061(7)(d), Florida Statutes. Although the City Council agreed to approve the car allowance, the City's public records did not adequately document the reasonableness of the travel allowance.

- (126) The Attorney General, in Opinion Nos. 080-3, 90-6, and 92-67, has indicated that the procedures used to pay a fixed monthly allowance must comply with the provisions of Section 112.061, Florida Statutes, unless exempted by the provisions of another general, special, or local law. We know of no authority exempting the vehicle allowance paid by the City from the documentation requirements (statement of an average typical month's travel) contained in Section 112.061(7)(f), Florida Statutes.
- (127) We recommend that the City, for any future monthly travel allowances, obtain a signed statement from the traveler at least annually which shows the places and distances for an average typical month's travel on official business as required by Section 112.061(7)(f), Florida Statutes. We also recommend that the City obtain appropriate documentation (pursuant to Section 112.061(7)(f), Florida Statutes) supporting the travel allowances paid to the City Manager, determine if any unauthorized travel allowances were paid, and consult with the City's legal counsel regarding procedures to recover any such amounts.
- (128) Pursuant to United States Treasury Regulation 1.62-2, travel mileage allowances are subject to withholding for payment of Federal income tax and other employment taxes. However, none of the travel allowance payments to the City Manager were subjected to the required withholding. Although the City Manager stated that he reported the travel allowance payments as income on his individual Federal income tax returns, we recommend that the City, in the

future, ensure that any such allowances are subjected to withholding for payment of Federal income tax and other employment taxes.

Travel Reimbursements

- (129) The City's travel expenditures were not always adequately supported and/or in accordance with Section 112.061, Florida Statutes, or City procedures.
- (130) Pursuant to Section 112.061(3)(b), Florida Statutes, City officials/employees travel expenses are limited to those expenses necessarily incurred by them in the performance of a public purpose authorized by law to be performed by the City and must be within the limitations prescribed by that Section. Pursuant to Article 5, Section 4 of the *Personnel Policy (Policy)*, the City pays reasonable amounts for transportation, meals, and lodging to employees of the City that are required to travel on official business. The *Policy* requires that all travel expenses be supported by an expense report with all receipts attached. To document travel expenses, the City established a Travel and Per Diem Voucher form (travel voucher).
- (131) Our test of 41 travel expenditures totaling \$5,544.05 for the period October 1, 1996, through July 14, 1998, disclosed that these expenditures were not always adequately supported and/or in accordance with Section 112.061, Florida Statutes, or City procedures. Specifically, for 35 of the travel expenditures tested totaling \$5,065.21, we noted one or more of the following deficiencies:
- Sixteen travel reimbursements totaling \$3,688.43 were not supported by a travel voucher form and two travel reimbursements totaling \$48 were supported by a travel voucher form that did not document the purpose of the travel. In these instances, supporting documentation did not demonstrate how the expense served a public purpose and/or how the expense benefited the City. For 14 of the 16 instances for which no travel voucher form was available, the traveler received an advance. In 11 of the 14 instances we could not determine if the advance was reasonable, or whether or not there were any unspent advances that should have been returned to the City, because the supporting documentation did not indicate the destination of the travel and/or the dates of the travel.
 - Contrary to Section 112.061(10), Florida Statutes, travel vouchers supporting four travel reimbursements totaling \$503.24 did not include a statement signed by the traveler

certifying that the expenses were actually incurred by the traveler as necessary travel expenses in the performance of their official duties and that they were true and correct as to every material matter.

- In eight instances totaling \$313, more than one traveler was listed on the travel voucher form with only one of the traveler's signatures. Once the traveler who signed the travel voucher form was paid, the traveler reimbursed the other passengers for their share of the travel moneys. To properly demonstrate compliance with Section 112.061, Florida Statutes, and the City's *Policy*, and to establish individual accountability for such compliance, each traveler should be required to complete a travel voucher form attesting that the travel expenses were actually incurred.
- Travel vouchers supporting six travel reimbursements totaling \$533.24 did not indicate the time of departure and/or return. In five of these instances, the reimbursements included meal allowances totaling \$195. Absent the time of departure and return, the City's records did not document, in these instances, that the meal allowances were authorized in accordance with Sections 112.061(5) and (6), Florida Statutes. Also, in two of the five instances reimbursements were for travel to conferences; however, no conference agendas or programs were included with the documentation supporting the travel reimbursements. In the absence of a conference agenda or program, we could not, in these instances, determine whether meals were included in the registration and, as such, whether the City had complied with the City procedure requiring that the traveler's per diem be reduced for any meals included in a conference registration fee.
- Section 112.061(6), Florida Statutes, establishes the amounts travelers are allowed for meal allowances or per diem while on official business. There were three instances totaling \$78 (ranging from \$18 to \$36) in which amounts paid to travelers for meal allowances were in excess of amounts allowed by Section 112.061(6), Florida Statutes. In addition, there were seven instances totaling \$207.50 (ranging from \$6 to \$57) in which amounts paid to travelers for meal allowances or per diem were less than the amounts allowed by Section 112.061(6), Florida Statutes.

(132) We recommend that the City, in the future, require all City officials/employees to provide adequate supporting documentation (including properly completed travel vouchers) for any

travel expense claims which clearly evidences the necessary and authorized public purpose served. Additionally, we recommend that the City review the questioned travel expenses disclosed by our audit, determine the extent of any amounts due to or owed from employees, and take the necessary cost-effective actions to resolve these matters.

Taxable Meal Allowances

- (133) Contrary to Federal regulations, payments for nondeductible travel expenses (Class C meal allowances) were not reported as wages or other compensation and were not subjected to withholding for payment of Federal income tax and other employment taxes.
- (134) Internal Revenue Code Section 162(a)(2) provides that there shall be allowed as a deduction all the necessary expenses paid or incurred during the taxable year in carrying on any trade or business, including travel expenses while “away from home.” The United States Supreme Court has interpreted the “away from home” requirement as requiring that the taxpayer be away from home overnight or at least long enough to require rest or sleep. Class C travel, as defined in Section 112.061(2), Florida Statutes, does not involve travel away from home overnight and, therefore, Class C meal allowances are not considered to be deductible traveling expenses. United States Treasury Regulation Section 1.62-2 provides that reimbursements for nondeductible traveling expenses must be reported as wages or other compensation on the employee’s Form W-2 and are subject to withholding and payment of employment taxes.
- (135) Our test of travel expenditures during the period October 1, 1996, through July 14, 1998, disclosed that nondeductible Class C meal allowances totaling \$195 were not reported as wages or other compensation and were not subjected to withholding for payment of Federal income tax and other employment taxes. It was not practical on postaudit to determine the amount of Class C payments processed by the City for travelers other than those employees included in our test during this period.
- (136) Subsequent to our review in January 1999, the City began reporting Class C meal allowances as wages and other compensation. We recommend that the City contact the Internal Revenue Service to determine what corrective action should be taken regarding the unreported amounts.

Communications Expenses

- (137) The City paid Federal, State, and local telecommunication taxes from which it is exempt.

- (138) Customers of vendors that provide telephone services are normally subjected to specified telecommunication Federal, State, and local sales or excise taxes. However, governmental entities are exempt from certain of these Federal, State, and local taxes. Pursuant to Internal Revenue Code Section 4253(i), the City is exempt from Federal taxes on telephone services. Similarly, the City is exempt from State sales taxes on telephone bills pursuant to Section 212.08(6), Florida Statutes. In addition, the City may be exempt from certain local taxes. For example, governments are exempt from the public service taxes imposed by municipalities pursuant to Section 166.231(5), Florida Statutes.
- (139) The City used two different vendors for non-SUNCOM telephone services and was billed on a monthly basis. During the period October 1996 through September 1998, the City reported expenditures totaling approximately \$11,000 for these two non-SUNCOM vendors. Our examination of all telephone billings from these vendors during the period October 1, 1996, through September 30, 1998, disclosed that the City paid \$464.96 of Federal, State, and local taxes from which they are exempt. We recommend that the City notify these vendors of the City's exempt status to ensure that no future taxes of this nature are billed to the City and attempt to obtain a refund for exempt taxes previously paid.

Vehicle Usage

- (140) The City Council had not, of record, designated which City vehicles were to be driven home overnight (i.e., to be assigned to employees on a 24-hour basis), contrary to the City's Personnel Policy. Also, adequate vehicle usage logs were not maintained for City vehicles assigned on a 24-hour basis. In addition, the City, for employees assigned vehicles on a 24-hour basis prior to January 1998, did not report the value of the personal use of the vehicles to the Internal Revenue Service, contrary to United States Treasury Regulations.
- (141) As of September 30, 1998, the City owned 62 motor vehicles, consisting of 20 automobiles, 1 van, 37 trucks, and 4 fire trucks. According to the City Manager, a total of 7 vehicles (2 automobiles, 4 pickup trucks, and 1 van), excluding police and fire vehicles, were assigned to individuals on a 24-hour basis as of September 30, 1998. Our review of the assignment of City vehicles and of records maintained to document their usage disclosed the following:

- Article 6, Section 3.2 of the City's *Personnel Policy*, provides that the City Council shall have the authority to designate those vehicles to be driven home (i.e., those vehicles to be assigned to employees on a 24-hour basis). However, the City Council had not, of record, made such designation. According to the City Manager, the vehicles assigned to employees on a 24-hour basis had been so assigned since his employment in March 1984, and he had no knowledge of the City Council having designated by official action that these vehicles could be driven to and from home.
- Beginning in the calendar year 1998, employees were required to complete a Monthly Mileage Log form (Mileage Log). Our review of Mileage Logs for vehicles assigned on a 24-hour basis disclosed that they included, in part, the vehicle number, the date the trips were made, and the beginning and ending odometer readings for each day. However, the purposes of the daily trips and points of origin and destination were not included on the Mileage Logs. Absent this information, the City has not clearly demonstrated that vehicles assigned on a 24-hour basis were used primarily for a public purpose and used only incidentally for the personal benefit of the employee assigned the vehicle.
- United States Treasury Regulation Section 1.61-21 provides that an employee's gross income includes compensation for services, which includes the fair market value of any fringe benefits not specifically excluded from gross income by another provision of the Internal Revenue Code. The personal use of an employer-provided automobile is a fringe benefit that must be included in the employee's gross income as compensation for services, unless otherwise excluded. According to the City Manager, prior to January 1998, seven employees were assigned vehicles on a 24-hour basis and those employees were allowed to drive the vehicles to and from home. However, contrary to United States Treasury Regulation Section 1.61-21, the value of the personal use of these vehicles was not included in the employees' gross compensation reported to the Internal Revenue Service. Effective January 1998, for those employees that continued to drive a vehicle home, the City began adding the fringe benefit to their weekly gross pay using the commuting value method specified in the United States Treasury Regulation Section 1.61-21, which sets the value at \$1.50 per one-way commute (or \$3 per round-trip commute).

- (142) We recommend that the City Council designate, of record, those City vehicles to be driven home overnight in accordance with the City's *Personnel Policy*. We also recommend that the City amend its Monthly Mileage Log form to require each employee assigned a vehicle to disclose the purposes and points of origin and destination. Additionally, the City should consult with the Internal Revenue Service to determine what action, if any, should be taken regarding the value of the personal use of these vehicles that was previously unreported for these employees.

Other Matters

Sunshine Law

- (143) In one instance, two former Council members and the City Manager met with a local business owner to discuss the purchasing of parts and service. Contrary to Section 286.011, Florida Statutes, the meeting was not advertised and held open to the public and minutes for the meeting were not recorded.
- (144) Section 286.011(1), Florida Statutes (commonly referred to as the Sunshine Law), states that all meetings of any board or commission of any State agency or authority or of any agency or authority of any county, municipal corporation, or political subdivision, except as otherwise provided by the Constitution of the State of Florida, at which official acts are to be taken are declared to be public meetings opened to the public at all times. Additionally, Section 286.011(2), Florida Statutes, states that minutes of a meeting of any such board or commission shall be promptly recorded and such records shall be open to public inspection.
- (145) The Attorney General in the publication GOVERNMENT-IN-THE SUNSHINE MANUAL states, "The Sunshine Law extends to the discussions and deliberations as well as the formal action taken by a public board or commission. There is no requirement that a quorum be present for a meeting of members of a public board or commission to be subject to s. 286.011." The Attorney General, in opinion No. 074-62, stated, "The Sunshine Law, s. 286.011, F.S., covers any gathering of members (two or more) of a public board or commission where those members deal with some matter on which foreseeable official action will be taken by the board."

- (146) Our review of the City Council minutes for a special workshop held on October 23, 1996, disclosed that the City Council approved a motion for the City Manager and a former City Council member to meet with a local business owner to discuss the purchasing of parts and services and to report back to the City Council at a later date. The City Council minutes for a regular meeting held on November 12, 1996, indicated that the former City Council member reported that he, the City Manager, and another former City Council member, had met with the local business owner, who offered a 10 percent discount to the City. Contrary to Section 286.011, Florida Statutes, the meeting was not advertised and held open to the public and minutes for the meeting were not recorded.
- (147) To comply with the above law, we recommend that meetings of two or more City Council members to conduct official City business be advertised and held open to the public and that minutes of such meetings be promptly recorded.

Sprayfield Acquisition

- (148) The City, in purchasing 400 acres of land, acquired a site necessary to the completion of its sprayfield irrigation system project and avoided potential future costs related to noncompliance with the Consent Order requiring full compliance with the Florida Department of Environmental Protection standards. However, the City did not fully comply with the provisions of Section 166.045(1)(a), Florida Statutes, regarding the documentation of offers and counter offers. As a result, the City did not adequately document, of record, why the City acquired 100 acres of property (at \$800 per acre) in excess of that needed to construct the sprayfield, paid approximately \$40,000 in excess of the appraised value of the property, and allowed the property owner to cut timber from the property and retain the proceeds from the sale of the timber.
- (149) The City owns and is responsible for the operation of a wastewater treatment facility. The City received its initial operation permit from the Florida Department of Environmental Protection (FDEP) (formerly the Florida Department of Environmental Regulation) on October 11, 1985. On November 8, 1990, the FDEP notified the City that it intended to deny the City's request for renewal of the operating permit because of concerns it had regarding the wastewater treatment facility. Subsequently, on April 30, 1991, the City and FDEP entered into Consent

Order 91-0135 to bring the City's wastewater treatment facility into full compliance with the FDEP standards.

- (150) As part of the effort to bring the City's wastewater treatment facility into compliance with FDEP standards, the City elected to change the facility's effluent disposal method from surface waters to a land application site and, in June 1992, notified the FDEP of its intent to do so. To accomplish this, the City was required to modify its wastewater treatment facility, construct a transmission line for treated effluent from the facility to a land disposal site, and construct a sprayfield irrigation system for disposal of the effluent. In September 1992, the City reached an agreement with the FDEP on a project schedule whereby the project was to be completed within 39 months by December 1995. According to the project schedule, construction was to begin in January 1995.
- (151) Prior to constructing the sprayfield irrigation system for the wastewater treatment effluent, the City had to locate a suitable land disposal site. Pursuant to Section 166.045(1)(a), Florida Statutes, a municipality that seeks to acquire by purchase real property for a municipal purpose must obtain in writing every appraisal, offer, or counter offer. Additionally, the municipality must maintain complete and accurate records of every such appraisal, offer, and counter offer.
- (152) During the period September 1992 through February 1994, the City considered several sites; however, most of the sites were determined to be too costly or not environmentally suitable. In March 1994, the City Manager informed the City Council of a site north of the City consisting of approximately 400 acres that had been tested for suitability, was ideal for City purposes, had one property owner, and did not have the environmental problems that other sites had. The City Manager also informed the City Council that the owner was asking about \$1,000 per acre (the owner subsequently requested \$1,000 per acre in a letter dated June 20, 1994). The City obtained an appraisal on the 400-acre site. According to the appraisal report presented at the March 28, 1994, City Council meeting, the property had an appraised value of approximately \$700 per acre for a total of \$280,000.
- (153) The City Council, at its March 28, 1994, meeting, initially authorized the City Manager to offer the property owner the \$700 appraisal price per acre. Subsequently, the City Council, at its August 29, 1994, meeting, authorized the City Manager and City Attorney to offer the property owner \$702 per acre for 400 acres, and to begin eminent domain proceedings on 300

acres if the owner rejected the offer. The City Attorney was instructed to notify the property owner's Attorney of the offer. At the September 12, 1994, City Council meeting, the City Attorney reported on his discussion with the property owner who requested \$850 per acre and the right to cut the timber and retain the mineral rights. Although the City's offer of \$702 per acre had been rejected, the City Council did not begin eminent domain proceedings. Instead, the City Council approved a motion to have the City Attorney make the property owner an offer of \$800 per acre plus allow the owner to have until December 31, 1994, to cut the timber with the City retaining mineral rights. The property owner accepted this offer and sold the property to the City in October 1994.

- (154) The City did not fully comply with the provisions of Section 166.045(1)(a), Florida Statutes, in that some offers and counter offers were not documented in writing. According to the City Manager, documentation evidencing the property owner's counter offer of \$850 per acre with the right to cut timber from the property was not obtained from the owner. Also, according to the City Manager, only 300 acres of the 400 acres purchased was necessary for construction and future expansion of the sprayfield irrigation system, but the entire 400 acres was purchased because the property owner did not want to split the land site up. The City Manager stated that documentation (i.e., written counter offer or other correspondence) evidencing the owner's desire not to split the land site up was not obtained. In response to our inquiry as to whether the City had made a determination as to the value of the timber prior to agreeing to let the owner cut and remove timber from the property, the City Manager stated that the City did not have someone in the timber business value the timber, but used the engineering firm's report to determine the value of the trees. Although the engineering firm's report provided a site description and history, it did not indicate a specific dollar value for the timber located on the property.
- (155) We realize that the City's ability to negotiate a reasonable purchase price for the 400-acre site was limited because the City, pursuant to the Consent Order, was required to bring its wastewater treatment facility into full compliance with the FDEP standards and was subject to fines, damages, and civil and criminal penalties for failure to comply. Further, the additional 100 acres not necessary for the system is an asset that may be sold to offset some of the site's acquisition costs. However, given the above-noted lack of documentation, it was not apparent, of record, why the City acquired 100 acres of property (at \$800 per acre) in excess of that

needed to construct the sprayfield, paid approximately \$40,000 in excess of the appraised value of the property, and allowed the property owner to cut the timber and retain the proceeds from the sale of the timber.

- (156) We recommend that the City, when purchasing real property in the future, ensure that all offers and counter offers are documented in writing in accordance with Section 166.045(1)(a), Florida Statutes. In addition, all other particulars, including the basis for City Council's decisions regarding such acquisitions, should be documented in the City's public records.

Year 2000 Compliance

- (157) The City has initiated several actions intended to assure that the City's information technology systems and resources are Year 2000 compliant. Because of the unprecedented nature of the Year 2000 issue, its operational effects will not be fully determinable until the Year 2000 and thereafter.
- (158) The Year 2000 problem is a two-digit-year representation problem created in the 1960s and 1970s when computer applications were first being developed. Since computer resources were costly and data entry was labor intensive, to reduce costs, it became common practice to represent dates in some form of six-digit format, usually MMDDYY, which did not include a century indicator. However, when the year 2000 arrives, unless computer applications are modified to recognize and interpret the correct century, the year 2000 will be misinterpreted as the year 1900. Inasmuch as some form of date, date calculation, time, or time duration is utilized in almost every computer application, the misinterpretation of dates by the City's computers and other electronic equipment could have a significant negative impact on City operations.
- (159) Resolution of the Year 2000 problem will require, at a minimum, that: (1) all computer hardware and other electronic equipment be made Year 2000 complaint; (2) all vendor supplied/acquired software be Year 2000 compliant; and (3) all Year 2000 problems be resolved for those applications or application modifications developed by the City. Our review of the status of the City's efforts to resolve the Year 2000 problem disclosed that the City was in the process of evaluating the City's information systems and resources to determine the extent of the problem and the need for resources to resolve. The City has developed a detailed

action plan and taken certain actions toward resolving the Year 2000 problem, and the City expects Year 2000 compliance to be achieved by August 1999.

- (160) Because of the unprecedented nature of the Year 2000 issue, its operational effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Accordingly, we do not provide assurance regarding the representations made by the City relative to the City's Year 2000 compliance status. Further, we do not provide assurance that the City is or will be Year 2000 ready, that the City's Year 2000 remediation efforts will be successful in whole or in part, or that parties with which the City does business will be Year 2000 ready.

STATEMENT FROM AUDITED OFFICIAL

- (161) In accordance with the provisions of Section 11.45(7)(d), Florida Statutes, a list of audit findings and recommendations was submitted to the City of DeFuniak Springs, Florida. The City's written response to the audit findings and recommendations included in this report is shown as Exhibit B.

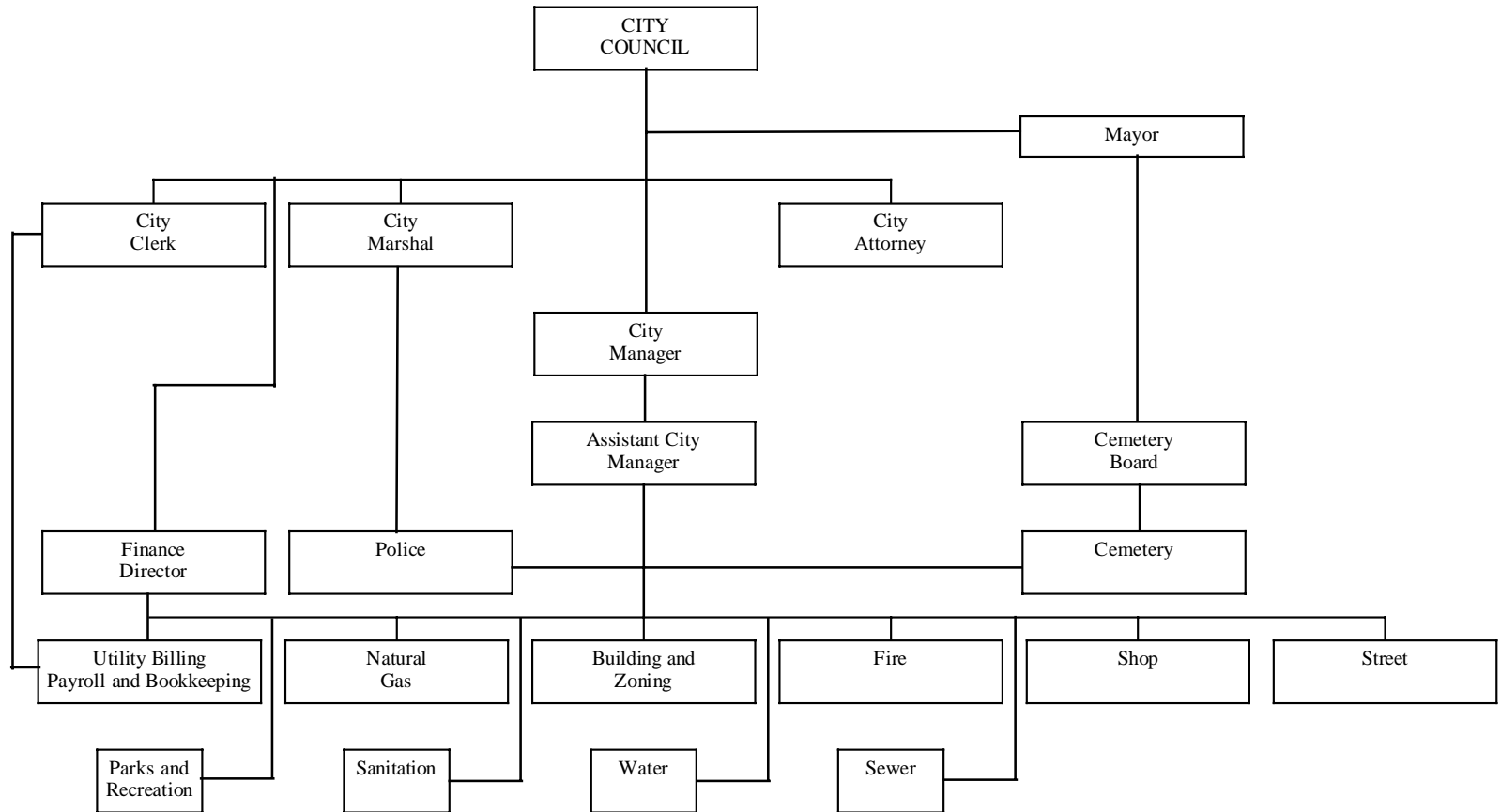
EXHIBITS

The following Exhibits are attached to and form an integral part of this report:

EXHIBIT - A ***Organizational Chart.***

EXHIBIT - B ***Statement from Audited Official.***

EXHIBIT – A
CITY OF DEFUNIAK SPRINGS, FLORIDA
ORGANIZATIONAL CHART
As of September 30, 1997, and September 30, 1998



Source: Job Classification & Description, City of DeFuniak Springs

EXHIBIT – B
CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT FROM AUDITED OFFICIAL
For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto

Audit
Report
Par. No.

COMPLIANCE

(22-25)

Management Controls

↓

The City Council will adopt all written policies and procedures necessary.

(28-31)

Budgetary Controls

↓

- Beginning with the 1999-2000 fiscal year budget and all subsequent annual budgets the City will include all beginning fund equities available from prior fiscal years.
- In all subsequent annual budgets, the City will include all applicable Federal Community Development Block Grant (CDBG) Program moneys in its annual budget.

(32-36)

Budget Adoption and Amendment

↓

The City Council will adopt an Ordinance amending the Municipal Code to provide for the adoption of their budget by Resolution.

(37-41)

Budget Overexpenditures

↓

The City Council will adopt a policy providing for budget amendments to be made by the City Council at the fund level. The policy will provide as it currently does that the Finance Director will continue to be responsible for the preparation and submission of budget amendments to the City Council.

(44-49)

Investments

↓

The City has already investigated placing moneys with the SBA and other authorized investments offering competitive returns consistent with safety and liquidity requirements. Some funds have already been invested in the Municipal Investment Trust.

EXHIBIT – B (Continued)
CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT FROM AUDITED OFFICIAL
For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto

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(51-60)

General Fixed Assets

↓

The City has established general ledger control accounts for all fixed assets. Furthermore, the City through a new fixed asset program is in the process of implementing procedures to capture all the information necessary to properly identify and evidence the accountability for the tangible personal property items. Included in the procedures are a uniform property numbering system that will identify each asset in the fixed asset subsidiary records as well as the timely recording of property deletions to the fixed subsidiary records.

(61-66)

Restricted Funds

↓

- The City has established a special revenue fund for the restricted motor fuel taxes received pursuant to Section 206.41(1)(c) and 206.60(1)(b) of the Florida Statutes.
- The City has reviewed balances on hand from these restricted revenue sources and transportation related expenses since October 1, 1997 and in no instance found that these restricted moneys were spent for anything other than transportation related expenses.

(68-69)

Personnel and Payroll Administration

↓

- The original plan was submitted for approval and is submitted to the City Council each year during the budget process. The plan is amended every five years to allow for inflation, cost of living adjustments, and salary increases. The minutes of the City Council meeting may not show it being approved because it is done in a budget workshop session and approved as part of the budget during the Council meeting. The City is and has been in a situation involving the formation of a union for the Public Works Personnel. The plan will be ultimately submitted to the City Council during the process.
- The City Council reviews all salaries each year based on the City Manager's recommendations. The Police Chief, Finance Director, and the City Manger are viewed by the City Council separately. The plan has to be adjusted from time to time to catch up. It is also necessary to adjust salaries to retain employees in certain situations. The plan will be modified with a wider range of minimum and maximum ranges to accommodate adjustments.

EXHIBIT – B (Continued)
CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT FROM AUDITED OFFICIAL
For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto

Audit
Report
Par. No.

(70-74)

↓

Employee Benefits

- The holiday, incentive, and insurance premiums paid to employees while on leave without pay were consistent with the City's Personnel Policy. Employees on leave not approved are not eligible.
- The City will be amending its Personnel Policy that will clarify those benefits eligible to employees during the union negotiations process and the current procedure has been discontinued.
- The City adopted an incentive pay program a number of years ago and it will be included in the new Personnel Policy at its adoption.

(75-78)

↓

Compensatory Time

The City Policy regarding compensatory time is an employee may elect to use compensatory time in lieu of overtime and it must be used within 30 days after accumulation. If not it is converted back to overtime and paid to the employee at that time. The policy is not inconsistent with the Federal Fair Labor Standard Act. The matter will be included in the City's new Personnel Policy at the appropriate time.

(83-86)

↓

Procurement of Goods and Services

The City staff will ensure that requests for purchase orders and purchase orders are properly completed and approved prior to purchase where appropriate. All invoices are attached to checks for proper cancellation and the City's computer system will not allow for an invoice to be paid twice.

(87-91)

↓

Contributions to Nongovernmental Organizations

- The City will continue to obtain adequate records from organizations supporting the use of public funds.
- The City will obtain necessary letters of agreements when appropriate when providing funds to organizations providing public purposes so deemed by the City Council.

(92-96)

↓

Contributions to Governmental Entities

The City Council will review its position of making cash contributions to other governmental entities and take the appropriate actions it deems necessary.

EXHIBIT – B (Continued)
CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT FROM AUDITED OFFICIAL
For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto

Audit
Report
Par. No.

(97-100)

↓

Inadequately Documented Unauthorized Expenditures

The City Council will provide clearly by documenting expenditures for public or municipal purposes in meeting minutes as appropriate.

- Flowers for funerals of employees and elected officials have been discontinued as of August 1998.
- Christmas Party was a one-time situation and not held since 1996 and continues to be discontinued.
- Coffee services have been discontinued.
- Tee shirt and polo shirt purchases was a one-time situation and was discontinued in 1996.

(102-104)

↓

Purchasing Practices

Currently the Municipal Code provides for the City Manager to sign contracts on behalf of the City. The City Council will amend its code providing for additional language. The City Manager or other appropriate person designated from time to time to execute contracts on behalf of the City Council of the City of DeFuniak Springs.

(105-107)

↓

Written Agreements

The City Council or City Staff , whichever is appropriate, will negotiate fees and arrangements for certain types of services. Services are to be paid for in accordance with those arrangements. In many cases this results in lesser charges.

(108-112)

↓

Auditing Services

- The City Council began this year a process in accordance with Florida Statutes 11.45 by seeking proposals for auditing services every three (3) years. The City Council will serve as the audit selection committee so long as it desires. The audit services will be competitively selected and negotiated by the City Council.
- The City Council will amend the City's Municipal Code to reflect the change in selecting auditing services as appropriate. Chapter 2, Article 2, Section 2.45(e).

EXHIBIT – B (Continued)
CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT FROM AUDITED OFFICIAL
For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto

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(113-115)

Sole Source Purchases

↓

A file will be maintained documenting sole source procedures in accordance with the City's Municipal Code.

(116-120)

Lease Purchases

↓

Lease purchases of equipment. The City will ensure in the future that a security interest is not given in these types of purchases. The terms of the agreements will not restrict the City Councils discretion in renewing after the close of each fiscal period.

(123-128)

Travel Expenses

↓

- In the event the City provides a monthly travel allowance, a signed statement will be obtained at least annually showing places and distances of an average typical month.
- Clayton Adkinson reviewed the action by the City Council on October 1994 and it is his opinion that there was no unauthorized payments made. The City Council now furnishes a vehicle to the City Manager.
- In the future should the City Council elect to provide a monthly travel allowance the City Finance Officer will endeavor to comply with applicable IRS rules.

(129-132)

Travel Reimbursements

↓

- The City will require in the future that all City Officials/Employees provide adequate documentation for travel expense claims.
- The City Council will determine the appropriateness of these expenses.

(133-136)

Taxable Meal Allowances

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The City began reporting Class "C" meal allowances as wages and other compensation in January 1999. The City will advise those employees that received payment for Class "C" meals and that they are responsible for contacting the IRS concerning the meal allowances and possible taxes owed.

(137-139)

Communication Expenses

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The City has notified the two (2) different non-Suncom telephone vendors of the City's exempt status and is in the process of

EXHIBIT – B (Continued)
CITY OF DEFUNIAK SPRINGS, FLORIDA
STATEMENT FROM AUDITED OFFICIAL
For the Period October 1, 1996, Through September 30, 1997,
and Selected Actions Taken Prior and Subsequent Thereto

Audit
Report
Par. No.

(137-139)
↓
attempting to obtain a refund for the exempt taxes previously paid. The City Finance Department will continue to endeavor that vendors be made aware that Municipal Governments are exempt for certain taxes. The Finance Department will attempt to recover the taxes paid of which the City was exempt.

(140-142)
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Vehicle Usage and Maintenance

- The City Council will review the policy for taking certain vehicles home and evaluate the need. The City Council will also designate those positions that vehicles are provided. The City Personnel Policy will be amended to provide the City Manager to see the policy is carried out.
- The City mileage logs will be amended as deemed necessary by the City Council to provide for records of travel out of town and in the County that are not normally traveled during routine work.
- The City Staff will advise those employees that the use of vehicles to and from work that it may have been subject to Federal Income Tax and that they are responsible for contacting the IRS.

(143-147)
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Sunshine Law

The City Council Members are aware that meetings with two or more members to discuss City business are subject to the Sunshine Law and should be treated accordingly.

(148-156)
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Sprayfield Acquisitions

The City in the future will endeavor to document written offers and counter offers for land purchases and whenever possible include those offers in Council meeting minutes.

(157-160)
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Year 2000 Compliance

The City has completed the Y2K efforts and believes its operations to be Y2K ready. The City will continue to monitor and the City has an emergency back up plan in place.